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To create a global and seamless network of information superhighways. To connect people and computers cost-effectively and efficiently. Anytime. Anywhere.

Motto : To continuously enhance the quality of services, improve shareholder value, achieve a high degree of customer confidence by upgrading service quality and to foster excellence amongst the work force.

What we commit to

In addition to the mission statement of the company, VSNL will strive to provide prompt, courteous, dependable and competitive services. It will aim to become a pioneer in the field of information technology and new fields of applied science, meet the complete needs of its customers, continuously enhance the quality of its services, promote and foster excellence among the work force, maximise return on investment, deal fairly, expand its assets and the range of its contemporary services to keep India at par with the best in information technology.

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Videsh Sanchar Nigam Limited is India's gateway

These cover international telephony, leased line access, global mobile satellite communication, global managed data service, gateway packet switched service, video-conferencing, electronic data interchange, the Internet and e-mail access among other services. VSNL also enables international calls to be relayed to customers throughout the country.

to the world. It is India's super vehicle

VSNL is also one of the fastest growing Indian companies. The telephone minutes handled since 1990-91 has increased 4.57 times. As a result, revenue increase since 1990-91 has 16.27 folded; the profit after tax has increased 12.47 times during the period. In 1997-98, VSNL reported a profit after tax of Rs 9.68 billion, registering a return of 27.07 per cent on the average funds utilised for the year.

in Information Technology. The company

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VSNL's strength and success is ascribed to its aggressive network expansion during the Nineties. The company's gross block has increased from Rs 1.86 billion in 1990-91 to Rs15.22 billion in 1997-98 corresponding to an increase in the simultaneous call-carrying capacity from 3,000 to 15,000.

enables Indians to reach out to the world

The company has increased international access gateways from 4 to 6, set up 17 earth stations besides connecting with advanced cable projects like FLAG, Sea-Me-We2 and 3. This infrastructure enables VSNL to deliver a competent service to its broad spectrum of users in India and abroad.

through basic and value-added services.

VSNL's shares are listed on the National, Mumbai, Delhi, Calcutta and Chennai stock exchanges. The company's Global Depository Receipt is listed on the London stock exchange. The Indian government holds 64.97 per cent of the company's equity. The total overseas holding in VSNL is around 25.43 per cent (as on 31 March, 1998). The rest is owned by the Indian institutions and the public.

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Achievements in 1997-98

- An increase in profits by 91.78 per cent. This is what drove the increase : volume growth, increased operational efficiency, better network utilisation and the depreciation of the rupee.
- A 21.63 per cent increase in the telephony traffic to 1685 paid million minutes spurred a 21.77 per cent increase in overall revenue.
- Margins rose : the pre-interest profit as a component of the total income increased

The international telecommunications industry is headed for exciting times. A time in which tariffs will be lower and the number of services will expand considerably. Customer convenience and choice are expected to be the key drivers of telecom companies. To prepare themselves for this scenario, a number of telecom companies are consolidating their strengths. This is evident in the number of mergers and strategic alliances taking place the world over.

VSNL intends to deliver customer value through two initiatives over the coming years : leverage its existing and proposed infrastructure as well as capitalise on opportunities provided by partners. This will help the company exploit its

Milestones



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from 16.12 per cent in 1996-97 to 22.21 per cent in 1997-98.

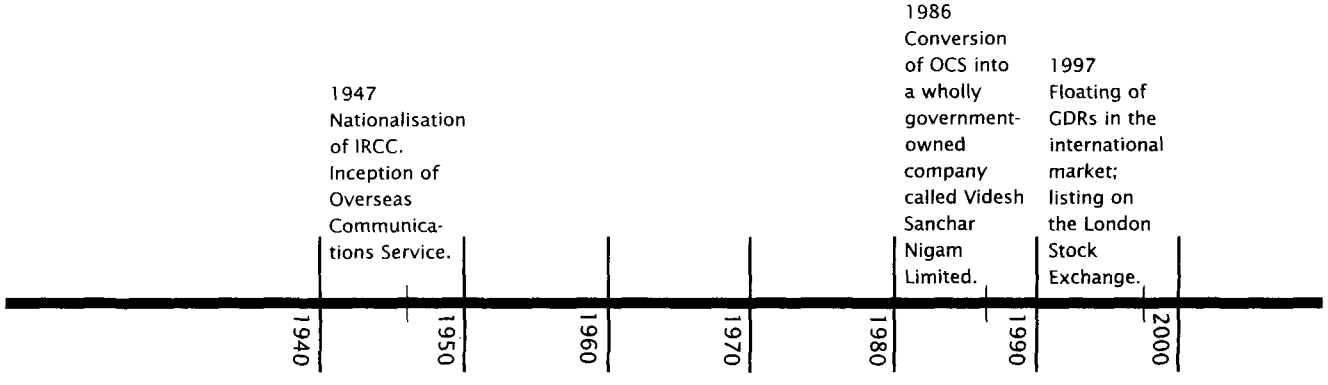
- Even though value-added services comprised only 4.46 per cent of the total income of the company, revenues from that business segment (excluding Inmarsat and Intelsat) increased by 53 per cent. The portfolio of value-added services was enhanced.

- New gateways at Ernakulam and Jalandhar became operational, taking the company closer to the customer.

Where VSNL is headed

considerable locational advantage more comprehensively. In view of this, the company has outlined an investment of Rs 50 billion during the Ninth Plan (1997 to 2002). This investment will strengthen VSNL's network further in addition to bringing a number of value-added services to the customer at the touch of a button.

A principal part of the funding for this expansion in infrastructure has already transpired through the GDR issue in 1997. The company expects to raise the rest through internal accruals - VSNL is confident of maintaining a 15 per cent growth in turnover - and debt over the foreseeable future.



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This is a summary of all important developments affecting VSNL following 31 March, 1998

Post-balance sheet date developments

Corporate developments

- VSNL is now a 'Navratna Company' - one of the nine jewels amongst PSUs. It is also upgraded to a schedule "A" Company - the highest rank rating in public sector companies.
- VSNL was granted the status of a Star Trading House, entitling it to various benefits, resulting in an increase in income for the company.
- Mr B.K. Syngal who was Chairman and Managing Director of VSNL, retired on 30 June, 1998. Mr. Amitabh Kumar, Director (Operations) is now the officiating Chairman and Managing Director of the Company.

Operational highlights

- The government announced a new uplinking policy for television broadcasters. VSNL has covered satellite broadcasting for six television channels and commissioned a new earth station at Greater Kailash, New Delhi.

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'VSNL has proved to be a strong value-creator for its customers and shareholders. Our investments in new technologies and infrastructure - cables, switches and earth stations - position the company to take advantage of new opportunities in the future. We expect the strong performance to continue in the current year.'

Amitabh Kumar,

Officiating Chairman and Managing Director

- Traffic volume increased nearly 15.17 per cent in the first half of 1998-99 over the corresponding period in 1997-98. Revenue from value-added services was higher during the first half by 74.83 per cent of what was achieved in 1997-98
- The ratio of incoming to outgoing calls increased from 2.94 in 1997-98 (12 months) to 3.30 in the first half of 1998-99. The answer-seizure ratio (ASR) which reflects the efficiency in delivery standards improved; the ASR for incoming calls to the metros increased from 50.47 per cent in 1997-98 to 51.28 per cent in the first half.
- The 64 kbps leased line population increased by 883 to touch 993 by 30 September, 1998. The internet customers increased by nearly 54,000 to touch 144,000 during the period. Telephone circuits increased from 15,431 to 17,000.
- Capital expenditure of Rs. 3.95 billion was undertaken.
- The Ernakulam and Jalandhar gateways and new earth stations at Information Technology Park (Bangalore and New Delhi) became fully operational. The ASR for the southern and northern regions served by these gateways has improved by upto 10 per cent.
- New Internet Service Providers (ISP) policy has been announced by the Government of India liberalising the ISP scene in India.

Financial highlights

- The EBITDA margin of 22.50 per cent in the first half was an improvement over the 18.40 per cent for the full of 1997-98.
- VSNL registered a profit after tax of Rs 7.36 billion for the first half of 1998-99 and an annualised EPS of Rs 154.95.

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April 1997
VSNL announces Internet availability from over 15 locations in India. The Internet leased line tariff was reduced by 20 per cent.

May 1997
VSNL announces a 23.47 per cent increase in its post-tax bottomline for 1996-97. Net profit increases from Rs 4.10 bn. in 1995-96 to Rs 5.50 bn. in 1996-97.

November 1997
The earth station at Halisahar near Calcutta inaugurated. It is named after Netaji Subhash Chandra Bose and dedicated to the nation. The earth station has a capacity to radiate 50x2 Mb carriers which will give a capacity of around 6000 voice / data channels besides transmission / reception facility.

December 1997
FLAG (fibre optic link around the globe) is commissioned. Its services link Mumbai with over 31 countries.

August 1997
Mr A.V. Gokak (Chairman, Telecom Commission) and Mr A. Prasad (Member, Finance, Telecom Commission) affirm that the revenue sharing agreement between VSNL and the DoT will stand unchanged until March 2002 as decided earlier.

September 1997
VSNL signs an MoU with the DoT which outlines the performance targets for VSNL, awards the company specific freedom, defines levels of commitment from DoT in support of VSNL's efforts and recognises projects of key importance of VSNL's performance during 1997-98. Among a number of points, VSNL agreed to achieve for 1997-98 a profit after tax of Rs 6.5 billion, a 99 per cent network availability and an outgoing ASR of 48 per cent, an incoming ASR of 41 per cent for the metros and 21 per cent for the rest of the country.

VSNL's e-mail services are rated the best in the country and bags the coveted 'PC-Quest and PC-World Awards'.

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Corporate milestones in 1997-98

November 1997

VSNL and ICO Global Communications sign an agreement for setting up an ICO satellite access node (SAN) at Chattarpur, Mehrauli, on the outskirts of New Delhi. ICO will invest $ 50 million in the SAN which will serve ICO global mobile communication users throughout India and other countries in the region. VSNL was one of the 12 countries allotted SANs after bidding by 27 countries.

February 1998

Euroweek's International Equity Review votes the VSNL GDR issue that was floated in March, 1997 as the best Indian equity deal of 1997, the fourth best Asian equity issue of 1997, the fourth best International Secondary Share Issue and the ninth best Privatisation Equity Issue. The awards were decided by a Euroweek poll of leading houses in the international equity markets in December, 1997.

December 1997

VSNL announces a cut in its Internet tariff with effect from 1 January, 1998, by over 30 per cent. In order to encourage small-time users to take advantage of the Internet, new tariff plans of smaller modules of 100 hours and 250 hours are introduced. ISDN access to Internet is launched.

March 1998

VSNL launches the Infofax to disseminate information on its services at the touch of a button. An interactive voice response service, users are expected to call and select the kind of information that they would need. Once the selection is made, the information is given by voice or faxed in minutes.

July 1998

'India Direct' services launched. This service allows one to make calls to India 'collect' from over 20 countries.

October 1998

Uplinking policy of the Government of India implemented. VSNL commences satellite broadcasting for Indian channels including Eenadu, Sun TV, Surya TV, Gemini TV and Udaya TV.

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How VSNL is making your life easie

Telephony

When a call is made by the individual from within India, the conversation is carried from the point of origin to the local exchange through the DoT's network. The DoT network hands over the call to the VSNL gateway which, in turn, relays it to the international carrier (say MCI) that carries it into the destination country. The international carrier may deliver the call to the local carrier for further delivery. The speed with which calls are put through depend on the congestion of the DoT's network, VSNL's lines or that of the international carrier. When congestion is relatively low, calls are put through in an instant. Calls coming into the country follow the reversed pattern.

VSNL is connected to 236 destinations the world over. VSNL has commissioned adequate infrastructure that enables immediate connections with satisfactory line clarity. The number of international telephone circuits has increased nearly nine-fold between 1989 and 1998. Besides, the company has invested in adequate capacity in undersea optic-fibre cables and satellites to ensure a global standard of efficiency in the delivery of telephone calls.

International Digital Private Leased Line Service (IPLS)

This is the backbone which has revolutionised India's software export industry.

The demand for high speed, reliable data communications has outstripped the capabilities of voice and telex networks. Wherever the

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With anywhere, anytime access

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digital data communication requirement exceeds three hours a day, it becomes economical to avail of the digital leased line. These are suitable for bulk users who have a large communication requirement between two specific points on a continuous basis.

The advantage of the leased line is that it provides a hot line essential for the success of a company's international operations. The tariff is structured in a manner that benefits higher use. The end-to-end circuit makes it superior to the public telephone service which has to pass through several filters. Its continued availability makes it a popular medium for instantaneous communication.

The leased line can be used as a pbx to pbx link, a hot line between two telephones, a computer to computer link, a computer to terminal connection for effecting bulk transfer, a terminal to computer link, a CAD to CAM relationship and an integrated solutions voice / data / video combinations.

Gateway Packet Switched Service (GPSS)

A packet switched network is designed to meet the specific needs of the subscribers requiring terminal-to-terminal, terminal-to-host and host-to-host data communications. In a packet switched network, the sender's data is divided into blocks of data called packets. Each packet includes an address along with the header and controls

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information for routing purposes.

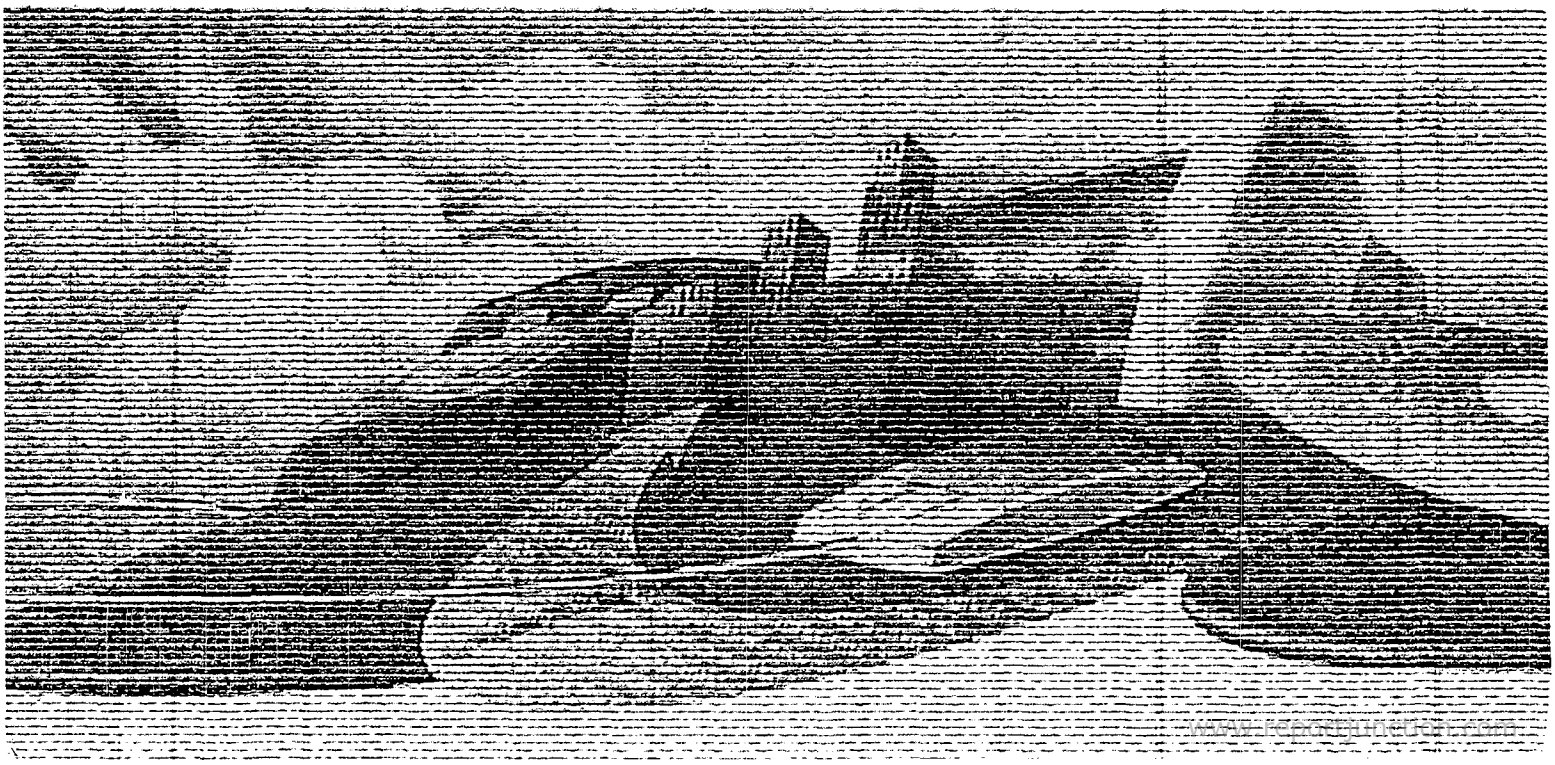
Packets are then routed individually via the most efficient path from the point of origination to their destination where they are reassembled into the correct order. The GPSS uses communication facilities more efficiently than traditional circuit switching. It also eliminates the high cost associated with leased line networks. Data integrity and security are the key elements of sending messages via this medium.

GPSS is India's Packet Switch Data Network gateway to other international Public Switched Packet Data Networks (PSPDN) in over 80 countries. It uses packet switching technology based on CCITT X.25 standard to offer online and real-time connections at speeds up to 64 kbps. Users can reach designated hosts 24 hours a day, seven days a week.

Global Managed Data Service (GMDS)

Suppose you are a multinational corporation with an office in India. Your requirement : the transfer and receipt of online information between not just your head office in the US but dozens of branch offices all over the world. Your solution : the GMDS.

The benefits of the GMDS include the global availability of service, a future-proof network, extension of business applications across the world, uniform quality and support worldwide. Plus : you save time in the transfer of information. Besides, your responsiveness to changes in the market is faster.



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GMDS takes the worry out of global networking.

To ensure that the networks are seamlessly structured, VSNL has tied up with Cable and Wireless for developing the GMDS. This is a fully managed, integrated data communications service with seamless global end-to-end networking for demanding business requirements.

Gems. 400

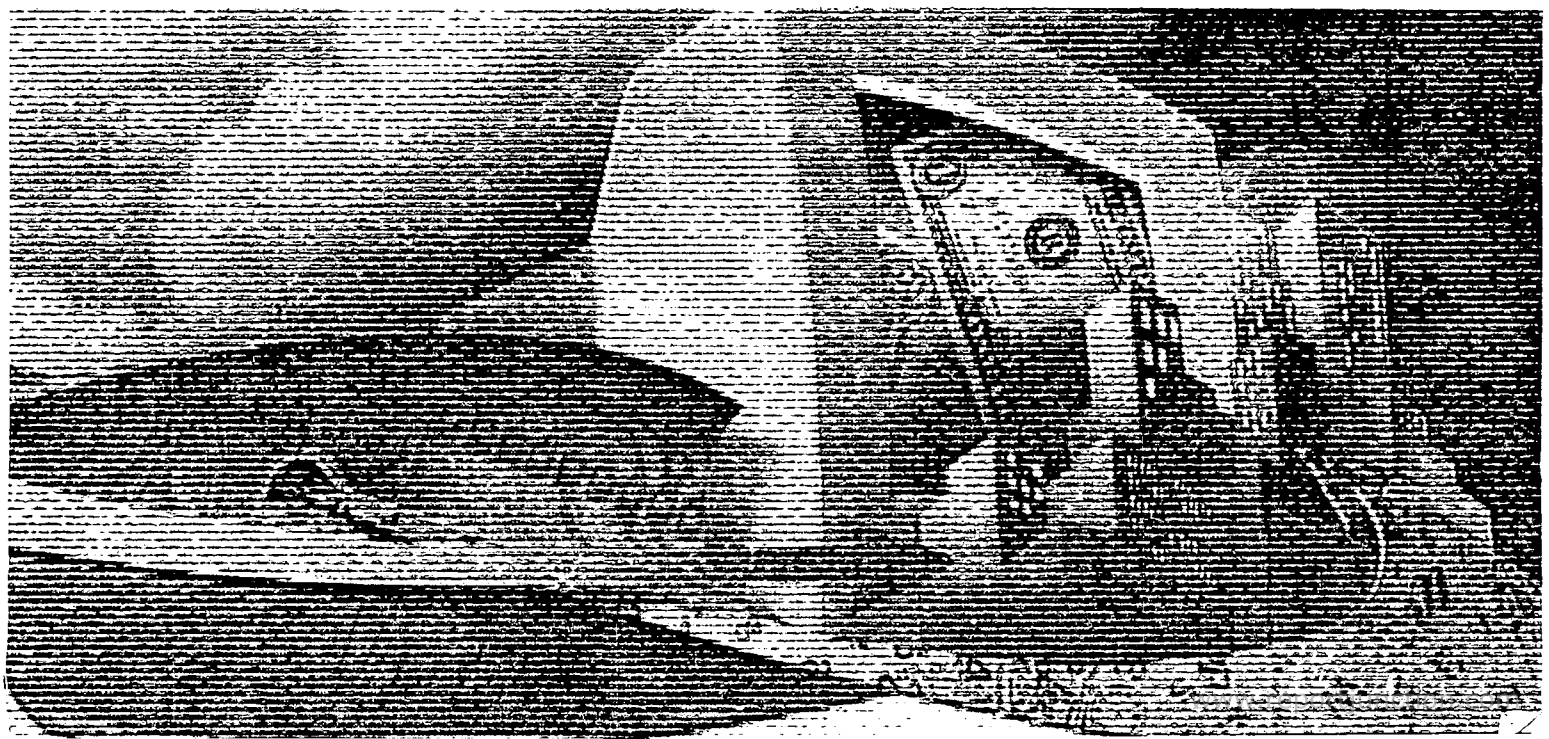
How do you have an organised corporate e-mail service which is dedicated and secure ?

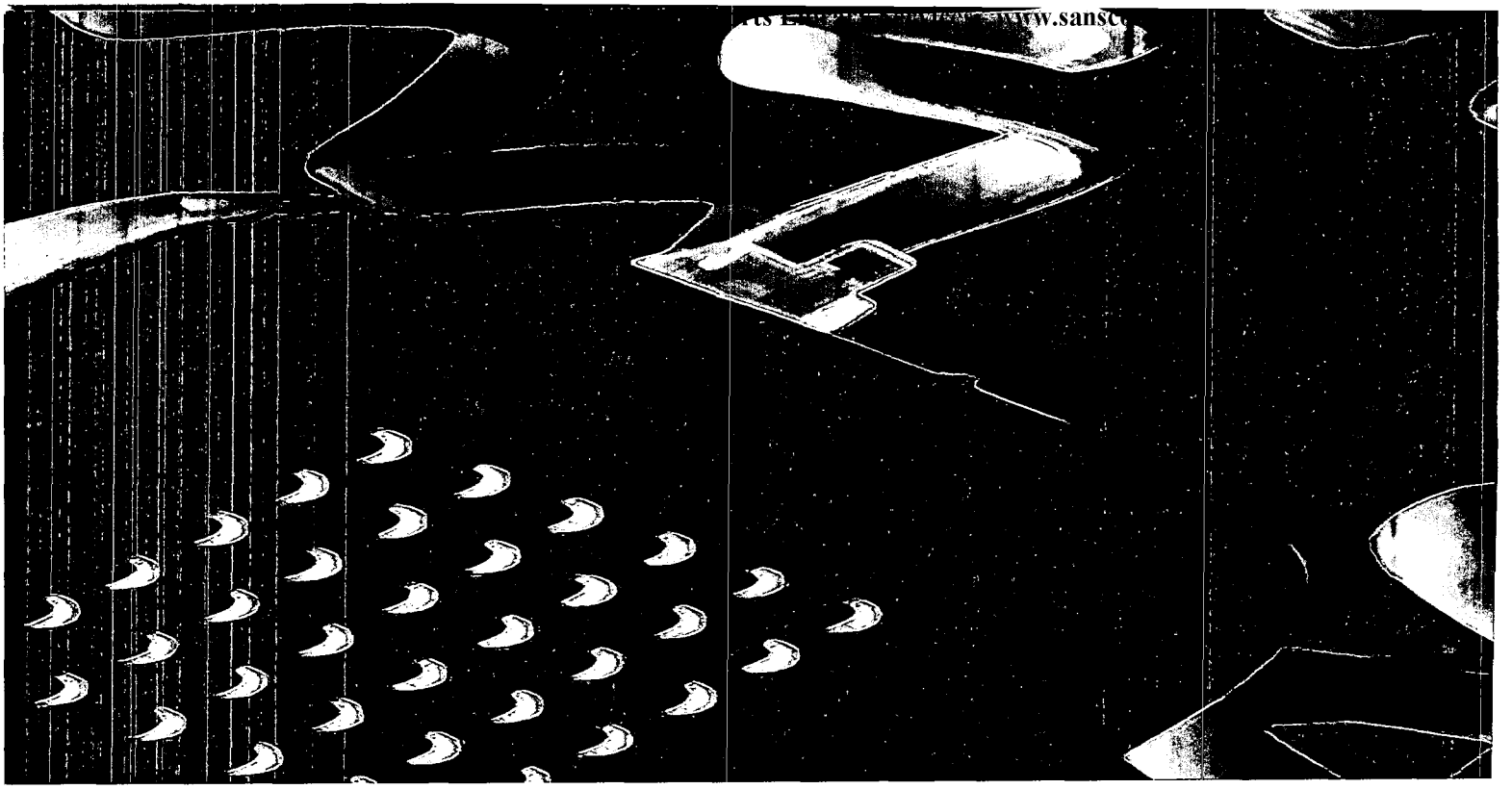
The Gems. 400 is a solution. The gateway e-mail and store-forward fax service is the general communication gateway to global messaging. The Gems.400 connects islands of electronic mail making them accessible to the individual PC user.

As a result, users are able to send messages electronically all over the world. The advantage of this network is that it is quick and relatively inexpensive compared with the alternative modes of transmission.

It also provides India's existing proprietary electronic mail systems, whether implemented on local area networks or mini / mainframe environments with access to the rapidly growing worldwide X.400 electronic mail community. The Gems.400 supports the store and forward fax message delivery.

The advantages of the Gems.400 service are that it requires a relatively low investment, the service is available throughout 24 hours, messages can be sent to e-mail, telex or fax subscribers within India and abroad, it supports





domestic postal deliveries of e-mail and fax messages, the network is compatible with various terminals and networks, the mode of transmission is as simple as making a local telephone call, is ideal for mass mailings, is error-free, contains the automatic reply and forwarding options and is priced as per the extent of use.

VSNL Inmarsat Services

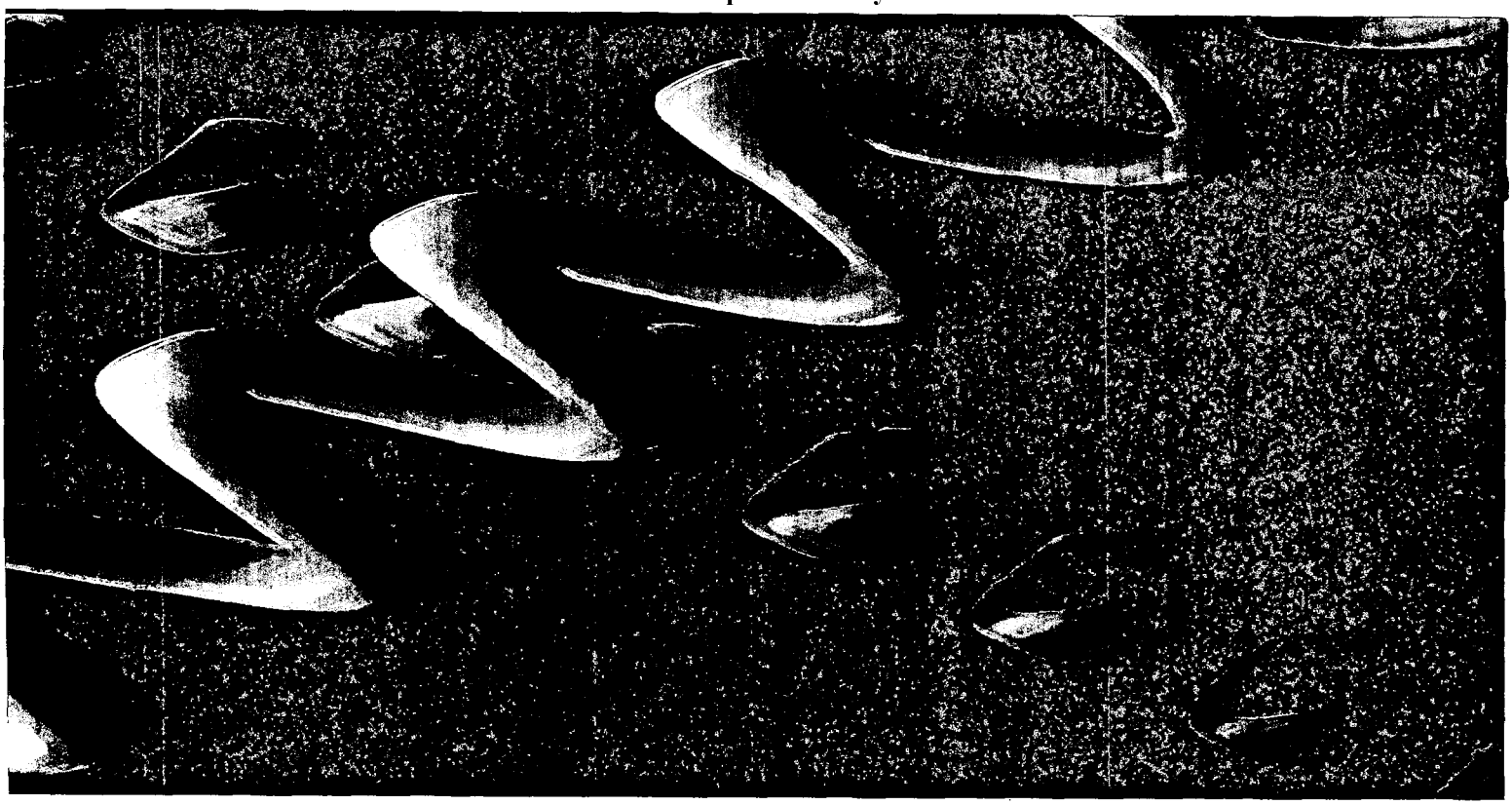
What can a shipping captain do when he is out at sea and needs to send a message home ? How does a journalist file his report on an event from a place which does not have a telephone ? How does a business house, setting up an industrial facility in a remote backward area, communicate with its bankers, vendors and head office on an hourly basis ? How can a passenger dial home from a Rajdhani train in the event of an emergency ?

The answer : *global mobile* satellite communication services. This service is provided by Inmarsat (International Mobile Satellite Organisation) which is an internationally owned co-operative that provides worldwide mobile satellite communications for maritime, aeronautical and land mobile users. VSNL has a collaboration that enables this service to be used by Indian customers.

The Inmarsat-A system forms the backbone of Inmarsat's service enabling the user to take the satellite phone, telex, data, facsimile and photo service anywhere in the world. The Inmarsat-B system is a digital version of the Inmarsat-A system with the same services. The Inmarsat-C is an advanced packet data communication system using a

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small, low cost mobile earth station suitable for installation in any size of vehicle - or even in a briefcase. The Inmarsat mini-M is specially designed to appeal to the specific requirements of the land mobile users, especially those constantly on the move. The terminal is compact, weighs around two kgs only and is of the size of a laptop computer.

Video-conference

In the world of the trans-national corporation, is it possible for the Board, spread across the world, to get together for a weekly review of business ?

No and yes. No, because it would be physically trying for the members to fly in from various cities week in and out. Yes, because video-conference facilities now provide a convenient escape route. This service, which uses the combined monitor and camera, now makes it possible for people in different locations to meet face to face. Global meetings can be conducted with the participants not required to even move out of their offices. The cost is a fraction of what it would otherwise take to fly the executives to the venue of the meeting.

In addition to providing this service through the ISDN, the video-conferencing facility can be used at the VSNL offices in Mumbai, New Delhi, Calcutta, Chennai and Bangalore.

Gateway Electronic Data Interchange Service (GEDIS)

Are you one of those business managers who is cutting back on production, trimming inventory, shedding labour and restructuring the business to emerge globally competitive ? Are you also one of the executives who has done all this successfully but have run into

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a wall when it has come to reducing the time-lag for trading between companies as the systems are locked in antiquated, slow and paper-led procedures ?

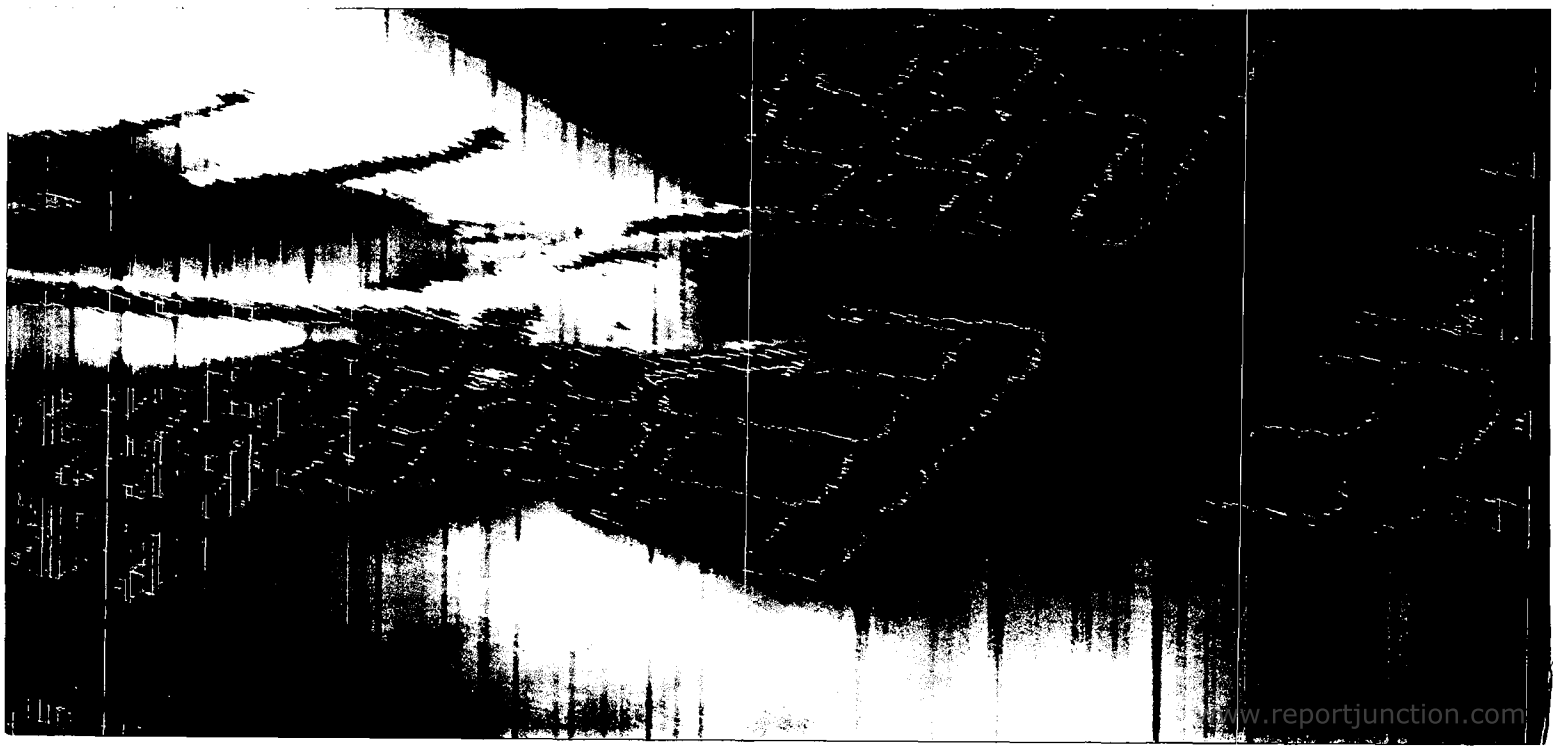
Your solution probably lies in the Electronic Data Interchange. The EDI makes it possible for the following to be carried out online : instructions to distributors with orders to ensure fast delivery, carriage booking, clearing the customs formalities even before the goods have arrived, instructing the banks to pay on time - without processing paper.

This is why managers should find EDI interesting. Because the traditional paper-led procedure has an inbuilt cost of 4 to 7 per cent of the total value of goods sold, according to an estimate. Because EDI compresses time to a tenth of the alternate medium; there is an improvement in the delivery cycle; mail and processing delays are eliminated; there is a greater accuracy in the process; duplication labour function is avoided; this is ideal for managing just-in-time inventories; it gives users a competitive advantage.

VSNL's GEDIS is interconnected to the world's leading EDI networks. This service is available uninterrupted throughout the year. GEDIS stores the data and forwards it electronically to the correct point on the network which awaits its collection. User data is protected by a password which prevents its unauthorised access.

Integrated Services Digital Network (ISDN)

The ISDN is a state-of-the-art

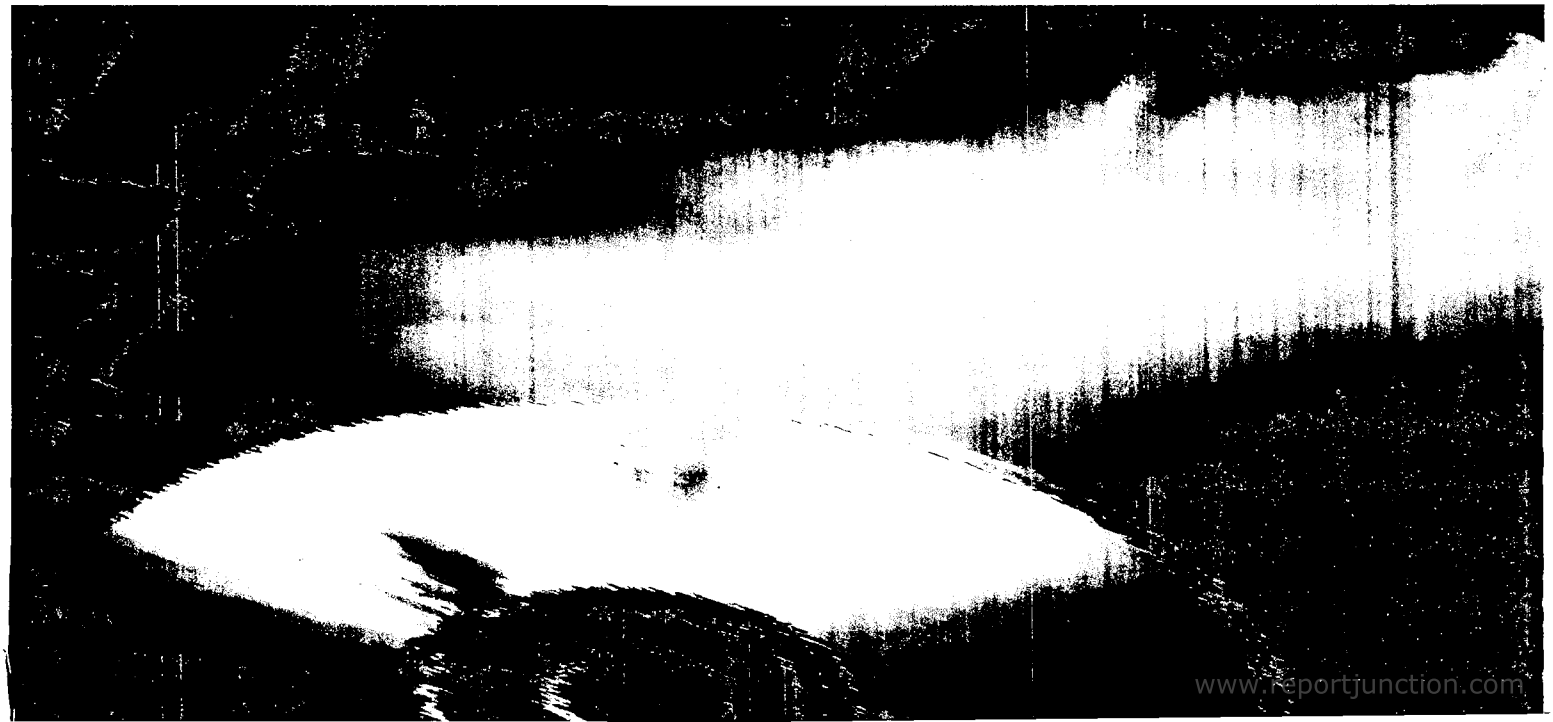


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Public Switched Data Network. Since it has emerged as an attractive medium for sending voice, data and images over the telephone network, it has revolutionised the way companies communicate with each other, especially between countries.

The ISDN advantages are many. Since the line is digital, it enjoys a high quality. A single connection can support both voice and data. Eight terminals can be connected to a single line. It is possible to enable data transfer at 64 kbps between two PCs. Two calls be conducted simultaneously on a single pair of waves. ISDN users can access the Internet at a higher bandwidth of 64 / 128 kbps resulting in a stronger response time and quality. The ISDN line can also be used for transmitting images making it ideal for video-conferencing.



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'Pick-up in infrastructure is expected to lead to increased telecom demand'

By Amitabh Kumar, Officiating Chairman, VSNL



Performance

Your Company has posted a record performance in the year 1997-98. The revenue increased to Rs. 64.36 billion, exhibiting a growth of 21.81%. The gross profit also increased to Rs. 14.28 billion, and the net profit after tax to Rs. 9.68 billion, recording a growth of 68.5% and 91.78% respectively over the previous year.

The growth of the Company and the trend continues in the current financial year where, for the first quarter, your Company has posted excellent results (unaudited) with revenue and net profit of Rs. 16.91 billion and Rs. 3.11 billion respectively. All the operating parameters of the Company such as gross margin and net margin improved over the previous year. With a net profit growth of 91.78%, VSNL has clearly emerged as one of the highest-growth companies in difficult economic conditions.

Despite the Asian crisis and the substantial slow-down in the economy affecting industrial growth and international business, the Company exhibited a volume growth of 21.63% over the previous year, indicating a strong operating performance. The Company handled 1685 million minutes of telephone traffic in the year 1997-98.

Infrastructure growth

VSNL continued to implement an aggressive strategy for growth in infrastructure which will help the Company become a strong and efficient player in telecommunications and provide state-of-the-art telecommunications services. The mission of the Company is 'To create a global and seamless network of information superhighways; to connect people and computers cost-effectively and efficiently; any time, anywhere', and the Company continued to build out infrastructure both for its core service of

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international telephony as well as value-added and advanced telematic services to ensure meeting customer requirements. The highlights of infrastructural development during the last year have been as follows:

- Two new gateways have been commissioned by your Company at Ernakulam and Jalandhar. This has helped to serve the traffic-generating centres in the South and North with improved reach to regional TAXs and local Exchanges. This has resulted in a de-congestion of the traffic in these regions and improved call clearance by 8-10% in these regions.

- The FLAG (Fibre Optic Link Around the Globe) optical fibre cable system in which the Company has invested US$ 37 million has been commissioned in December, 1997, providing a new and highly reliable transmission medium to over 40 countries from the Far East to Western Europe.

- The Company has also invested in infrastructure for video uplinking and providing data and value-added services.

- An earth station at Information Technology Park, Bangalore, has recently been put into operation, which will serve the large community of India's software development industry - one of the fastest growing sectors in the Indian telecommunications industry.

- An earth station operating in the KU band has also been commissioned at Greater Kailash, New Delhi, and gateways at Kanpur and Hyderabad are under implementation.

- Your Company has invested US$ 150 million in ICO, and is also building the SAN (Satellite Access Node) facility at New Delhi, India.

Investment plans

Let me now turn to our investment plans and infrastructure development philosophy for the Company. In 1997-98, the Company invested Rs. 4.47 billion in various capital expenditure programmes, an outline of which has been drawn up as a part of the 9th Five Year Plan. The 9th Five Year Plan of the Company envisages a total investment of Rs. 50.31 billion spread out over five years from 1997-2002. The year 1997-98 was the first year of the 9th Five Year Plan, and our Capex has been targeted at realising the schemes aiming at both the development of our core business of international telephony as well as diversification into video, global satellite mobile, DTH (Direct-to-Home) and value-added services.

The capital expenditure programme for the current year envisages an outlay of approximately Rs. 11 billion. The major projects which have been undertaken during the current year include the SEA-ME-WE-3 optical fibre system which will provide significant additional connectivity worldwide on high-capacity optical fibre systems. The Capex programme also includes a Network Management Centre, additional earth station antennas for video uplinking and data gateway application,

The capital expenditure programme for the current year envisages an outlay of approximately Rupees eleven billion.

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investment in new technology of ATM as well as significant investment in value-added services. We also expect a decision soon on the formation of a joint venture for transit services and the development of a regional hub. Additional ventures in the offing include a joint venture for mobile satellite services and a subsidiary for value-added services.

Significant developments

Let me now take this opportunity to comment on some of the significant developments and our strategy and operating philosophy.

Sector developments - National

- *National IT Task Force*

A number of important developments have taken place on the national scene which have potentially significant impact on our business. You may be aware of the formation of the National Information Technology (IT) Task Force and its recommendations for accelerating the pace of development of the information technology industry in the country and facilitating the linkage of India to the global economy. These recommendations, which have now been formalised as a Gazette Notification, lay down ambitious targets for the growth of IT in the country. The policies envisage tax concessions and incentives as well as targets for growth of IT and telematic infrastructure in the country. All of these are likely to have a positive impact on the international connectivity requirements. VSNL is India's super vehicle in information technology through its facilitation of international connectivity with over 800 leased lines, 120,000 Internet connections and 250 Internet and Managed Data Network leased lines in operation. With the connectivity for data services exceeding 100 Mbps, your Company has played a significant role in connecting India to the rest of the world and help grow the US$ 2.75 billion software industry in the country. We believe that the initiatives taken by the IT Task Force will generate new businesses for the Company in the coming year.

- *Liberalisation of Internet Services*

The policy of ISP liberalisation has been announced, whereby private Internet operators would be allowed to build their own networks in the country and offer Internet and related services. We see this as a positive development. VSNL has always supported the liberalisation of the Internet services in line with other countries where Internet services are available. It is envisaged that a number of ISPs will start their operations and this in turn will lead to a requirement of international connectivity and generate significant additional business for VSNL. We expect the bandwidth requirement arising out of new ISPs to be of the order of 100-150 Mbs in the current year which will add to

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our leased line revenues.

We believe that the core business in value-added services for the Company lies in providing connectivity solutions and top level exchange points and international segments which we would be ideally placed to serve with our investments in high-capacity optical fibre systems and over 17 operational antennas.

- *Uplinking Policy*

Another significant development has been the announcement of an uplinking policy for TV programmes for Indian channels with specified equity holding pattern.

VSNL has been serving the Indian broadcasters' community through its lease of over 13 transponders on the INTELSAT system and Occasional Use television uplinking. The new uplinking policy now enables the Company to start offering uplinking services to a number of Indian channels using its network of earth stations. Three of our earth stations for TV uplinking are ready for operation in the Southern and Northern regions where the potential uplinking requirement presently exists. VSNL has already commenced uplinking for Sun TV with effect from 18 September, 1998.

- *TRAI Consultation Paper On Tariff Rebalancing*

A recent development has been the release of a Consultation Paper by the Telecom Regulatory Authority of India (TRAI) on rebalancing of domestic and international tariffs for telecommunications services. Briefly, the recommendations envisage a significant reduction in the international calling rates from India. VSNL has been consistently advocating reduction in calling rates from India which are comparatively high and have been restricting the growth of outgoing traffic from the country. High calling rates from India against consistently lowering collection rates in other countries have been leading to a proliferation of callback services as well as illegal use of leased lines for PSTN traffic and the use of a variety of refile and arbitrage services.

We expect the reduction in collection rates in India, when implemented, to improve the outgoing traffic from India and reduce the callback as well as arbitrage services to a significant extent. The opportunity offered by growth in traffic will add to the bottom line of the Company. The Company has been preparing itself for a significant growth in telecom traffic arising out of liberalising telecommunications scenario and lowering rates domestically and worldwide. As you are aware, the Company is governed by a revenue sharing formula with the Department of Telecommunications (DoT), whereby revenues are relatively insulated from reduction in collection rates in the country. The revenue sharing formula

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will enable the Company to capitalise on the enhanced traffic arising out of reductions in collection rates.

Sector Developments - International

▪ *Accounting Rates*

Turning now to the international scenario, telecommunications is a field where some of the most rapid changes are taking place. Firstly, the accounting rates worldwide have been falling rapidly and reflect a trend towards cost-based inter-connectivity. Your Company has followed a policy of a gradual reduction in accounting rates ranging from 8-11% per year, which we believe is the optimum approach to the phenomena of bringing the accounting rates closer to the operating costs in the sector. We have also followed a policy of uniform accounting rates for various regions of the world. In the case of USA, the accounting rates scenario has been characterised by an unilateral declaration by the Federal Communications Commission (FCC) of a certain benchmark accounting rate to be achieved by the year 2002-03. The above approach is not consistent with the international telecom convention of bilateral settlement of accounting rates. India, along with over 30 other countries, has filed an appeal against the above unilateral order of the FCC. In the meantime, we are continuing our negotiations with the US carriers and should be able to finalise an accounting rate in the near future.

▪ *Mergers and Acquisitions*

We are also witnessing a significant consolidation in the international telecommunications industry with a number of mergers and alliances leading to the formation of major operating consortia. An example of a recent proposed alliance is that of BT (of UK) and AT&T (of USA) which may create the largest telecom conglomerate in the world. The new alliance will operate as a corridor operator with common operating points across the Atlantic and in many other countries. Similarly, the merger of WorldCom and MCI which has been completed on 14 September, 1998, creates another major and corridor carrier. These mergers will have the impact of lowering of inter-continental traffic-carrying rates as well as result in the ability of a carrier to divert traffic selectively via telecommunications hubs.

Your Company feels that operating in this environment will offer new opportunities as well as new challenges of being able to carry increasing traffic via new routes to optimise our costs. Our project of a regional hub should position us as a regional and global player in the new emerging market scenario.

Privatisation

The international telecommunications sector is also witnessing a wave of privatisation led by increasing awareness

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of international competition laws and the desire of a majority of countries to promote competition in telecommunications as a policy. We have already seen a move towards privatisation of INTELSAT which is an international organisation with 143 countries participating in the consortia and enjoying immunities and privileges of an international organisation. The first step towards privatisation of INTELSAT has been taken with the hiving of six satellites out of a total of 24 operational satellites in the system to form a new company by name "New Skies Satellites, N.V.". Your Company which had a stake of 3.35 % in INTELSAT will now have a holding stake of 3.01 % in New Skies Satellite, N.V. New Skies Satellite is further subject to privatisation through an IPO in 1999. The formation of this company will primarily divest the broadcast business of INTELSAT to New Skies Satellite, and VSNL will operate with the new Company for serving the broadcast customers in India. INTELSAT is further set to be privatised under a time-bound programme by the year 2000-01, subject to agreement by its member constituents. INMARSAT and EUTELSAT are progressing on similar privatisation programmes whereby they would start operating as commercial companies, subject to competition law and taxation as any other competitor, in the near future.

Your Company is also impacted by these privatisation programmes. While INTELSAT and INMARSAT constituted the sole operating satellite consortia with which your Company used to operate for providing its entire global telecom networks, the situation may change in the future when they could be one of the operating companies in the arena. This may offer VSNL an opportunity of operating with new satellite networks, possibly with an objective of achieving advantages in costs or technology. We expect additional investments in earth stations and acquisition of satellite capacity for which we have made provisions in our capex programme.

Economic scenario

Let me now turn to the economic scenario globally and in the country. The Asian crisis has been a significant event which is affecting business growth in a large number of countries as well as causing a depression in global telecommunications traffic. We believe that growth in volume of traffic to VSNL would have been higher at 25-26% under normal business conditions. The continued line roll out in India is expected to continue to drive the international traffic growth from the country. A pick up in the infrastructure development activities in India which is now expected, should also lead to a growth in the demand for telephony as well as other managed data and leased line services.

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Management

During the year, there have been some significant changes in the Management of the Company. Shri RK Gupta, Director (Development), left the Company in February 1998. Shri BK Syngal, who was the Chairman & Managing Director, also retired from service on 30 June, 1998. I would like to place on record the contributions to the Company of Shri RK Gupta and Shri BK Syngal. The Government of India is taking urgent steps to reconstitute the Board of the Company, and we expect developments in this field very soon.

Outlook

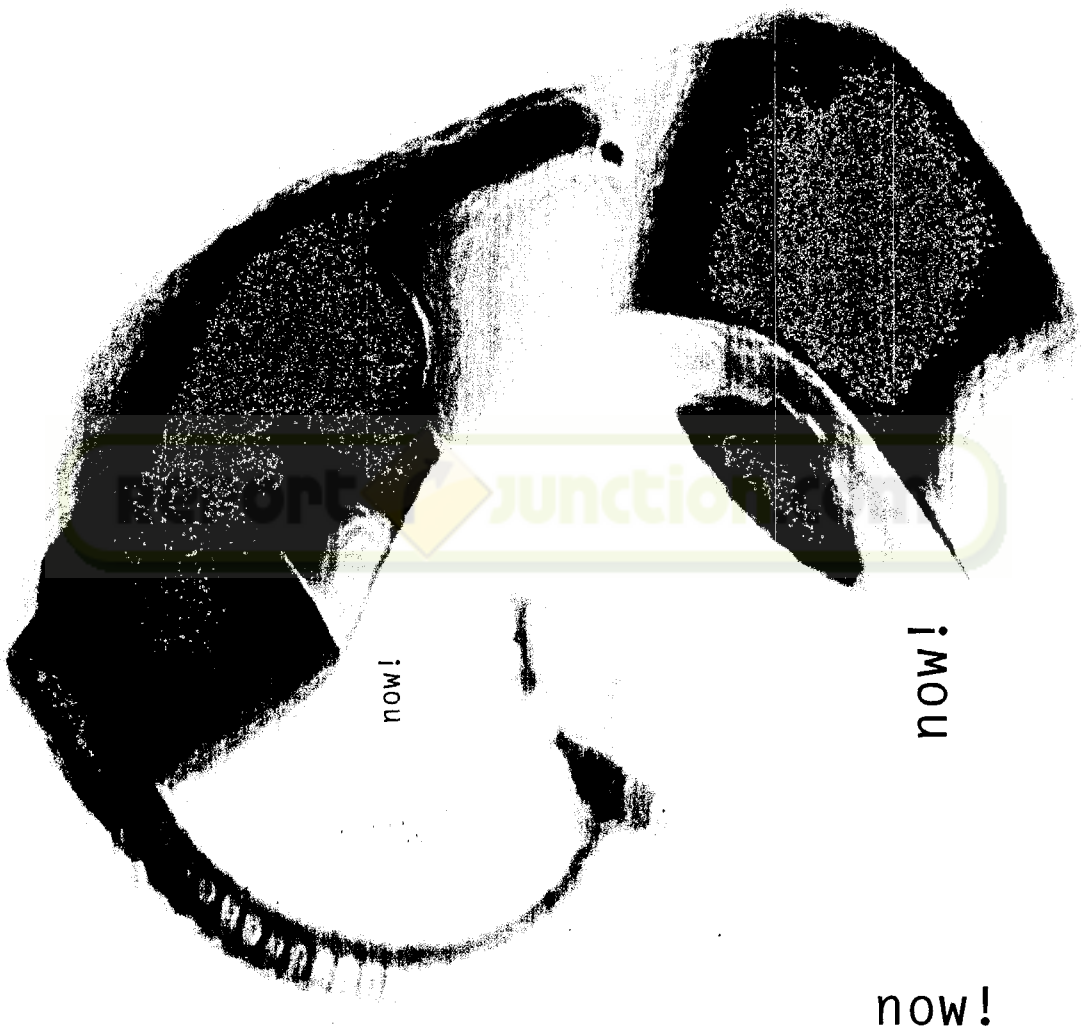
The developments in the telecommunications sector worldwide and in India present a highly dynamic operating field for the Company despite its assured monopoly on international telecommunications till the year 2004. The complex operating scenario arises out of a significant decline in the accounting and settlement rates and collection rates, which is expected to lead to a rapid rise in international telephone traffic. At the same time, development of new technologies like Internet and associated telecom services, including Internet telephony, multi-media, etc., are expected to have a significant impact and emerge as major alternative technologies in the next five years. The advent of Global Mobile System using satellite telephony, will also continue to impact the market and enhance the connectivity options of customers.

The Company's growth plans envisage a rapidly changing operating relationship, cost-based services and a complex and changing set of international relationships. We believe that the future presents significant opportunities, provided we continue to build the right infrastructure and position the Company for meeting the demands of its customers through investments in new technologies and a continuously changing mix of offered telecom services. Your Company believes in building cost advantages through investment in infrastructure which can be sustained over a period of time, in building superior customer relationships and in maximising value for its customers and shareholders. The Company is committed to provide a diverse range of communications services meeting demands of its customers, enter into strategic relationships and move towards being a strong player in competitive markets. We have taken significant decisions in upgrading our technologies which will help us take the Company to greater heights in the coming years.

(These are the excerpts from the Chairman's speech at the twelfth annual general meeting of VSNL on 21 September, 1998)

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'Internet banking is the road to the future'

'Internet banking is the road to the future'

'Even 24 hours is now too long for customers to be serviced,' says Mr Bhai. 'People have less and less time to stand in queues at the bank branches. As a result, one of the options that we have is for customers to click for help on our website and get a call on their telephone within minutes from our customer call centres with the information. This has made customer-servicing almost interactive.'

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If ICICI Bank is emerging as the bank of choice among discerning customers, it is probably due to the facility of transacting business through the Net which it offers to its account holders. The bank uses VSNL's leased line to connect from its branch to the gateway. 'What impressed us,' says Neeraj Bhai, senior vice president, Information Technology, 'is that the executives at VSNL gave us the confidence that they would pull out all stops so that we could make a success of the project.'

And success it has been. The internet banking facility enables account holders anywhere in India to access general and personalised information through the Net. 'You can look up your current bank balance, you can check for the number of transactions over the last two months and over the next few weeks, the bank will permit fund transfers between branches for corporates and individuals,' says Mr Bhai.

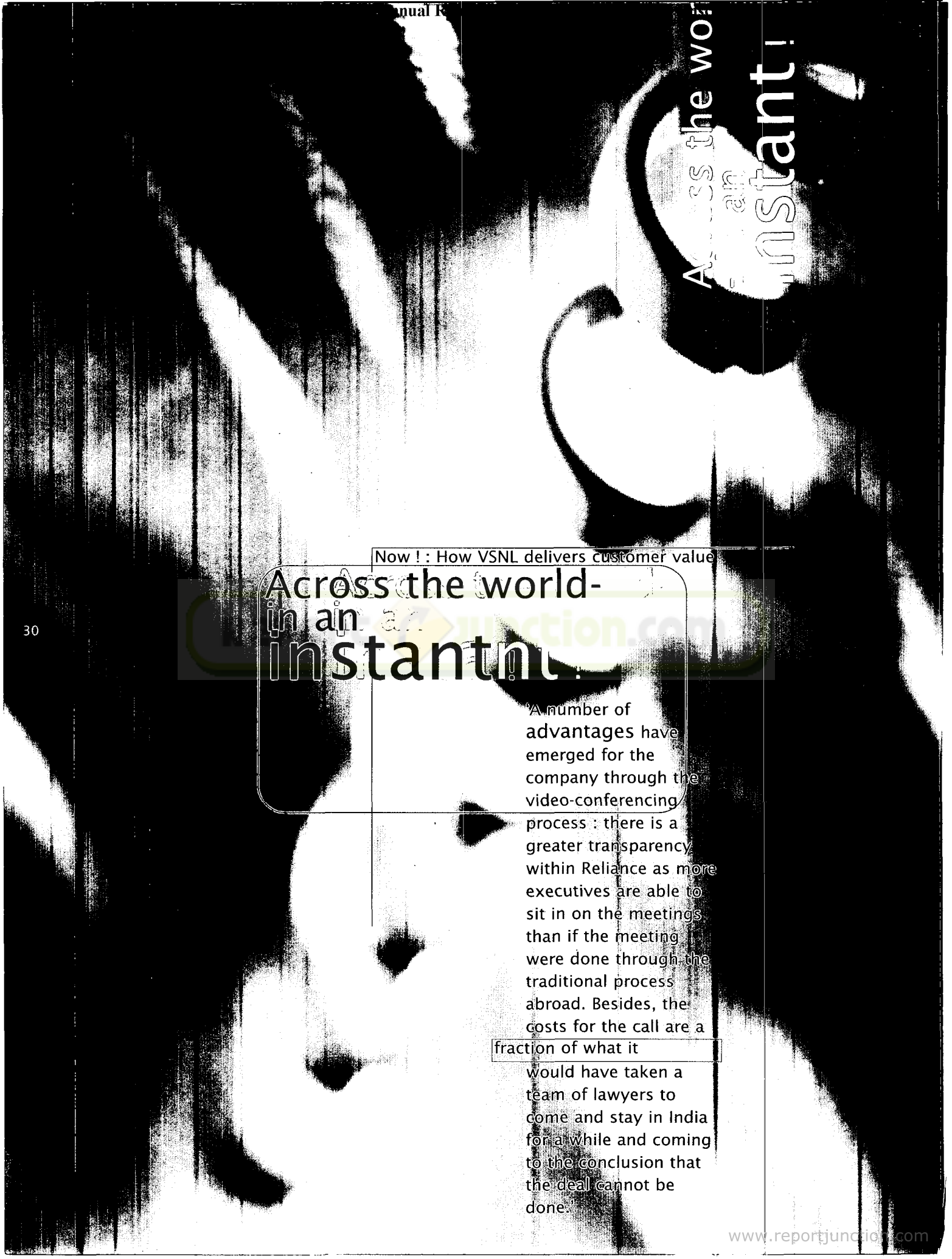
ICICI Bank's tryst with the Internet started in February 1996. The initial focus was to make application forms of IPOs instantly available to NRIs through the Net. The cost of mailing an application form to intending applicants worldwide was Rs 300. In contrast, downloading the application form from ICICI Bank's website proved not only an instantaneous solution - but also a cost-effective one. Over the last couple of years, the downloading of 6000 applications has saved ICICI Bank nearly Rs 18 lacs in mailing costs alone. 'Since we guaranteed a 24 hour response time for queries on the Net, NRIs have also been induced to keep their funds with us. This has helped raise the NRI component of the bank's total deposit base from 4 per cent to 10 per cent,' says Mr Bhai.

Infinity, the internet banking facility, followed was actively started in January 1998. In the following nine months, the client base of Net customers had risen to 1100 with another 1800 waiting with applications for being vetted. 'It is now even possible to become an account-holder without going to the bank in person,' says Mr Bhai.

The folks at ICICI Bank are convinced that **electronic banking** is indeed the road to the future. 'This is because the customer has become increasingly demanding with little time to spare,' says Mr Bhai. 'Even 24 hours is now too long for customers to be serviced,' says Mr Bhai. 'People have less and less time to stand in queues at the bank branches. As a result, one of the options that we have is for customers to click for help on our website and get a call on their telephone within minutes from our customer call centres with the information. This has made customer-servicing almost interactive.'

The results are showing. ICICI Bank was one of only 46 Net-based banks in the world according to a study by Bank Technology News International. A few months ago, Business Today compared the services of ICICI Bank with those of Wells Fargo. The magazine concluded that the Indian bank offered a better service than its counterpart in the US.

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Now ! : How VSNL delivers customer value

Across the world- in an instant!

A number of advantages have emerged for the company through the video-conferencing process : there is a greater transparency within Reliance as more executives are able to sit in on the meetings than if the meeting were done through the traditional process abroad. Besides, the costs for the call are a fraction of what it would have taken a team of lawyers to come and stay in India for a while and coming to the conclusion that the deal cannot be done.

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Reliance Industries is the largest company in India's private sector. Its profit for 1997-98 was the highest recorded by any non-government business in India : Rs 16.53 billion.

In addition to a strong tradition of entrepreneurship and aggressive asset building at one of the lowest costs in the world, it is Reliance's emphasis on quickening the decision-making process which has made it a petrochemical giant to reckon with. The vehicle for quicker decision-making has been a world-class information infrastructure.

Reliance uses the VSNL infrastructure in three areas : leased line for the Internet at 128 kbps, a leased line connecting Mumbai and London as well as Jamnagar and London and an ISDN infrastructure which supports international video-conferencing.

'The ISDN line is used for **video-conferencing** between Reliance in Mumbai and financial analysts all over the world,' says Jyotindra Thacker, Chief Information Officer. 'It is also used for meetings between Reliance and the vendors of equipment before a particular item of purchase is decided. It has also emerged as a convenient medium for our consulting lawyers and the company's legal department to hold conferences and thrash out issues. A number of advantages have emerged for the company through the video-conferencing process : there is a greater transparency within Reliance as more executives are able to sit in on the meetings than if the meeting were done through the traditional process abroad. Besides, the costs for the call are a fraction of what it would have taken a team of lawyers to come and stay in India for a while and coming to the conclusion that the deal cannot be done.'

The leased line connecting Reliance Petroleum's project on the outskirts of Jamnagar with Bechtel's office in London has also bought an entirely new dimension into project management. The leased line enables a transfer of data within minutes; the courier between the two points would take four days. Besides, since the medium permits an interactive dialogue, it has been possible to start designing a part of the project in Jamnagar. 'It makes financial sense ,' says Mr Thacker, 'since detailed engineering is more meticulous and by shifting it to Jamnagar, the company has been able to save considerable costs in the process. Since the leased line can also carry drawings between the two centres, we have been able to speed up the project considerably.'

Reliance's **leased line** for Internet access has also shrunk the world for the company. 'It is possible for a message from a financial institution to be conveyed via e-mail to the managing director within ten minutes - without bureaucratic buffers because the managing director checks his e-mail box directly. The entire organisation not only interacts with itself between its various offices and factories but also with the outside world actively. My estimate is that the line handles 2500 e-mail messages between Reliance and the outside world while internally the number is four times this.'

And how has VSNL responded to the demands of one of India's most exacting companies ? 'We have had a 99 per cent uptime on our network. What more can one expect ?,' says Mr Thacker. 'We would not have been able to progress as fast without VSNL's support.'

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Now it's How-VSNL delivers customer value

Windowshopping from homee

Since VSNL launched Internet access for Indian users in August 1995, the biggest stumbling blocks in elevating the medium from an academic pursuit remained guts and imagination. Not any longer.

In August 1998, Rediff-on-the-Net launched an e-commerce service covering music items, books and hotel reservations. IBM and Intel partnered Rediff for the technology. Fedex for deliveries. It is now possible to type www.rediff.co.in, enter the shopping area on the website, browse through a collection, click 'Buy' on anything preferred, to the purchases on an electronic shopping card and enter the name / password / address / phone number / credit card details in the allotted spaces. Within a couple of days, once the payment has been credited to the company's account, the item of purchase is delivered.

'Online commerce or internet shopping is really the need of the moment,' says Uma Iyer, director, strategic alliances at Rediff-on-the Net. 'This is because with people having less and less time to spare, it makes more sense for the books to be delivered home. Besides, it would be possible to save on taxi fares while browsing through the Net.'

Mention the fact that physical shopping has a 'feel' and 'atmosphere' to it and Uma Iyer springs to the defence of **e-commerce**. 'This is precisely what we are trying to do in e-commerce,' she says. 'By providing readers a review of the books that we have listed makes it possible for them to make an educated purchase instead of looking at the cover design and making an emotional or impulsive purchase. Besides, we catalogue the books as per the title, authors and category. This is an advantage that we have over the traditional bookstores.'

There is an important benefit as well. Since the electronic bookstore is virtual, the overheads are considerably lower than the traditional bookshops - especially in the

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metropolitan cities where real estate is expensive. This helps the electronic bookstore in offering books at a price which is cheaper. 'This helps us increase value for the customer in the process,' says Ms Iyer.

Interestingly, Rediff-on-the Net has already cast its net wider. 'We have made it possible for people to purchase their cinema tickets also through our website,' says Ms Iyer. 'This is a real convenience because it would be difficult for executives to take time off during their office hours and stand in the queue for a ticket. On the other hand, all that one has to do is to log into our website, book tickets, pay by credit card and have the pleasure of getting the tickets delivered to his residence. A number of people are finding this to be a real convenience.'

Convenience. That is the word. Ms Iyer insists : 'Customers want service exactly as they would be treated at a shop. Which is why we respond between 24 and 48 hours for requests within Mumbai and within six working days for outstation requests after the cheque has been cleared.'

The response has been encouraging. Within the first fortnight of launch, requests started coming into Rediff not just from Mumbai - but all over the world. 'We have reconciled ourselves to the fact that online commerce may not grow rapidly for the first couple of years in India, but after that we see a strong future ahead,' says Ms. Iyer. 'Take the success of the amazon.com bookstore for instance. It is an online store stocking more than a million copies. Or take the instance of onsale.inc for example. They are computer hardware sellers and they already sold more than $ 50 million of equipment in the last two years - all through the Net !'

If Rediff's virtual store remains open round the clock, it is in no small measure due to the strength of VSNL's leased lines. 'We have a 64 kbps connection with a stable line. The VSNL service has also improved over time, making ours a dependable service.'

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Information by the minute

Reuters is synonymous with speed, reliability and credibility in information gathering the world over. The news service is credited to have scooped the story of Iraq's invasion into Kuwait a good hour and a half before the rest of the world's media. The Pakistani foreign minister confessed that he first learnt of India's nuclear test through Reuters.

Reuters has also been described as the most influential news service coming out of India. Indian government officials will speak to the Reuters representative if the news needs to be circulated quickest over the world. Besides, among the opinion makers in India who turn to their online Reuters terminal when they need an update or a confirmation are RBI governor, the Finance Minister and the office of the Prime Minister.

There is a reason why the Reuters update on India is trusted much more than the news on television, according to reporters at the news agency. 'It is simply because our information gathering is more credible,' says Simon Cameron-Moore, bureau chief in the office of the news agency in Mumbai. 'Often rumours move the markets. For instance, you will find the stock price of companies rising on the whisper that a bonus issue is about to be announced. There have been a number of occasions when Reuters has been able to go deeper and conclude that nothing of the sort is likely to happen. And we have been proved right. This is why the markets take us seriously. That is the kind of value-addition which we deliver to our clientele. It has been remarked that markets may move investors but we definitely move the markets.'

Reuters has an inhouse staff of 25 journalists in addition to freelancers who are scattered over the metro cities and smaller towns across India. Much of Reuters's work from India is in the form of financial reporting - covering corporate developments, price movements in commodities, stock, forex and fixed income

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'Any interruption in the Reuters service that carries the forex movements means that banks immediately stop trading,' says Rajeev Rawal, engineer, projects and communications. 'It becomes a big issue and the ripple effect of this rolls right up to the Finance Minister in Delhi.'

markets. These news feeds are picked up by every major international news service and flashed in virtually every country of the world. In addition to wide reach, the accent is clearly on right news at the right time.

With India increasing in importance for the international investors in the Nineties ever since the liberalisation momentum gathered pace, there has been a greater premium on stories coming out of India. With foreign investment in Indian equities rising over the decade, there is now a need for information which goes beyond the macro. 'A number of subscribers who take our service in South East Asia and the US are more interested in knowing the kind of profits the big companies post every quarter than they are about the broad movements of certain parts of the economy,' says Uday Khandeparkar, reporter. 'This is clearly because there is a lot more foreign investment in Indian equities than there was in the Eighties. So if one reads the Indian stock prices in a London financial daily then it is probable that this is due to Reuters.'
The accent on the accurate results in Reuters being used increasingly as the basis of operations which require swift responsiveness and minute detail. Take inter-bank transactions for instance. 'Any interruption in the Reuters service that carries the forex movements means that banks immediately stop trading,' says Rajeev Rawal, engineer, projects and communications. 'It becomes a big issue and the ripple effect of this rolls right up to the Finance Minister in Delhi.'

Where does VSNL fit into this ? 'We have two **leased lines** that connect Reuters in India to Singapore,' says Mr Rawal. 'Due to the sensitive nature of the business we are in, it is important to have reliable lines in order to deliver consistent service to the customers. VSNL has risen to the occasion by giving us excellent service and infrastructure. On the few occasions that we have had problems, the engineers at VSNL have been most responsive to our requirements.'

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Clearing the vision

Read the following sequence to understand how television programmes are beamed by Indian broadcasters into the country : programmes are recorded in India, the cassettes are flown to countries which have uploading equipment, the programmes are beamed onto transponders in the skies, the transponders in turn beam the programmes to earth. In the event of news programmes which need to be delivered urgently, broadcasters would effect a transfer of the cassette content through VSNL's lines, have it recorded at the receiving end abroad and then feed it into the transponder. In this case due to the various filters through which the recording needed to pass, the quality of the image and sound at the viewer's end was affected. Besides, the time-loss involved resulted in the news already having been scooped by a competing news channel with access to an online transfer.

Over the last few months, the required government decision has been taken to make a difference to this sequence. Broadcasters will not need to fly their cassettes out of India. They have been permitted to uplink their programmes through VSNL's infrastructure from Indian soil.

The new system is a dream come true for Indian broadcasters, says Mr Sharad Kumar, director, Udaya TV. It used to be highly inconvenient sending cassettes every day via flights with an idea that these would be used a few days later. For instance, a programme which needed to be broadcast on Friday required the cassette to be flown out on Monday. Wherever the programme being telecast was more news-oriented, we had to fly out our representative to Singapore with the cassette in his hand. This created a problem on the revenue side of the business : wherever the advertiser wanted a spot at the last instant, we had no option but to refuse since it would be difficult to get the material over to Singapore, our **uplinking** venue. As a result, we generally worked well within our potential.'

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'More than the cost saving will be the sheer inconvenience which will be avoided when we uplink from our domestic soil,' says Mr Kumar.

This is what the permission to uplink from within India is likely to do for a number of broadcasters. 'For one thing, we can now entertain the idea of doing a live programme,' says Mr Kumar. 'Besides, since we can now make changes right down to the last instant, the advertisers will find it easier to work with us. Let me give you an instance : the advertiser who wants to respond to his competitor's marketing latest strategy through TV advertisements, can refine his strategy right till the every end, making them more effective. My feeling is that client satisfaction will now increase at least ten-fold with companies being allowed to uplink from Indian soil.'

Channels in regional languages will also now be able to introduce a lot more localisation into the news channel. For example, the viewer in Hubli would be quite interested in what is transpiring in his town or Bangalore and Karnataka than he might be in watching a general news programme which includes more American and foreign feeds. If regional channels can give viewers contemporary information in the language of the region without any time-lag between the news that he gets on Star TV and that on Udaya TV, it would lead to an information revolution - at the grassroots. Udaya TV has a sitting market for this : nearly 97 per cent of the households covered by cable or satellites carry the channel in a region where the cable penetration is increasing 30 per cent each year. Even though the focus of Udaya TV and its cousin Sun TV (under the same management) is South India, the two channels effectively cover the entire country.

'More than the cost saving will be the sheer inconvenience which we will be avoided when we uplink from our domestic soil,' says Mr Kumar. 'For instance, for each feed we would have to submit two copies of an application to the Information and Broadcasting Ministry in Delhi, one to the Finance Ministry and then one to the Reserve Bank of India in Chennai. Under the new system, we will need to pay VSNL against a bill each quarter. And with no applications in triplicate !'

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Getting the voice in from the cold

One of the stumbling blocks in the speedy implementation of industrial projects is the poor supporting infrastructure in most of these locations. Since a number of these projects are often located in backward areas to avail of fiscal incentives of the government, the absence of any telecommunication network often makes the completion of such projects on schedule a daunting exercise. In the event of a time or cost overrun, the project starts out with a handicap that lives with the project during its economic life.

Interestingly, a number of industrial projects in the country have found an effective way of circumventing this handicap. The Inmarsat-M terminal registered through VSNL enables a machine the size of a laptop to become an effective communications vehicle even in the most remote of areas. This wireless device connects the user to the Inmarsat satellite which, in turns, establishes a connection with the terrestrial destination of choice.

One of the successfully implemented projects in the country which leveraged the use of the Inmarsat-M line was the 235 MW GVK power project in Jegurupadu. The first independent power project in India, GVK enlisted ABB as the project co-ordinator and principal contractors. ABB, in turn, enlisted the support of sub-contractors. The communications network needed to span the principal ABB offices in Germany and India besides establishing a connection with the offices of the sub-contractors.

'The Inmarsat-M line was extensively used in Jegurupadu because we had no alternative,' says C.R. Narayanan, senior manager (information systems) at ABB. 'The traditional telephony medium has a 40 per cent uptime at the most especially when the connection is to remote locations. In the Inmarsat line, the uptime was 100 per

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'The traditional telephony medium has a 40 per cent uptime at the most especially when the connection is to remote locations. In the Inmarsat line anywhere in the world, the uptime was 100 per cent which means that we were able to communciate when the need arose,' says an ABB executive who worked in a remote location

cent which means that we were able to communciate anywhere in the world when the need arose. One must see this service in the context of the location to realise what a blessing it turned out to be.'

During implementation stage, the premium is on the immediacy of communication. 'Most problems need to be resolved immediately,' says Mr Narayanan. 'Any delay results in losing grip on the problem. Besides, most of such projects are funded with debt and there is a premium on their timely commissioning. Delays inevitably inflate project cost. Besides, there is usually a penalty clause in the event of delays. As a result, whenever bottlenecks arise, it is important to call and resolve matters immediately. The cost of communication in such instances becomes secondary.'

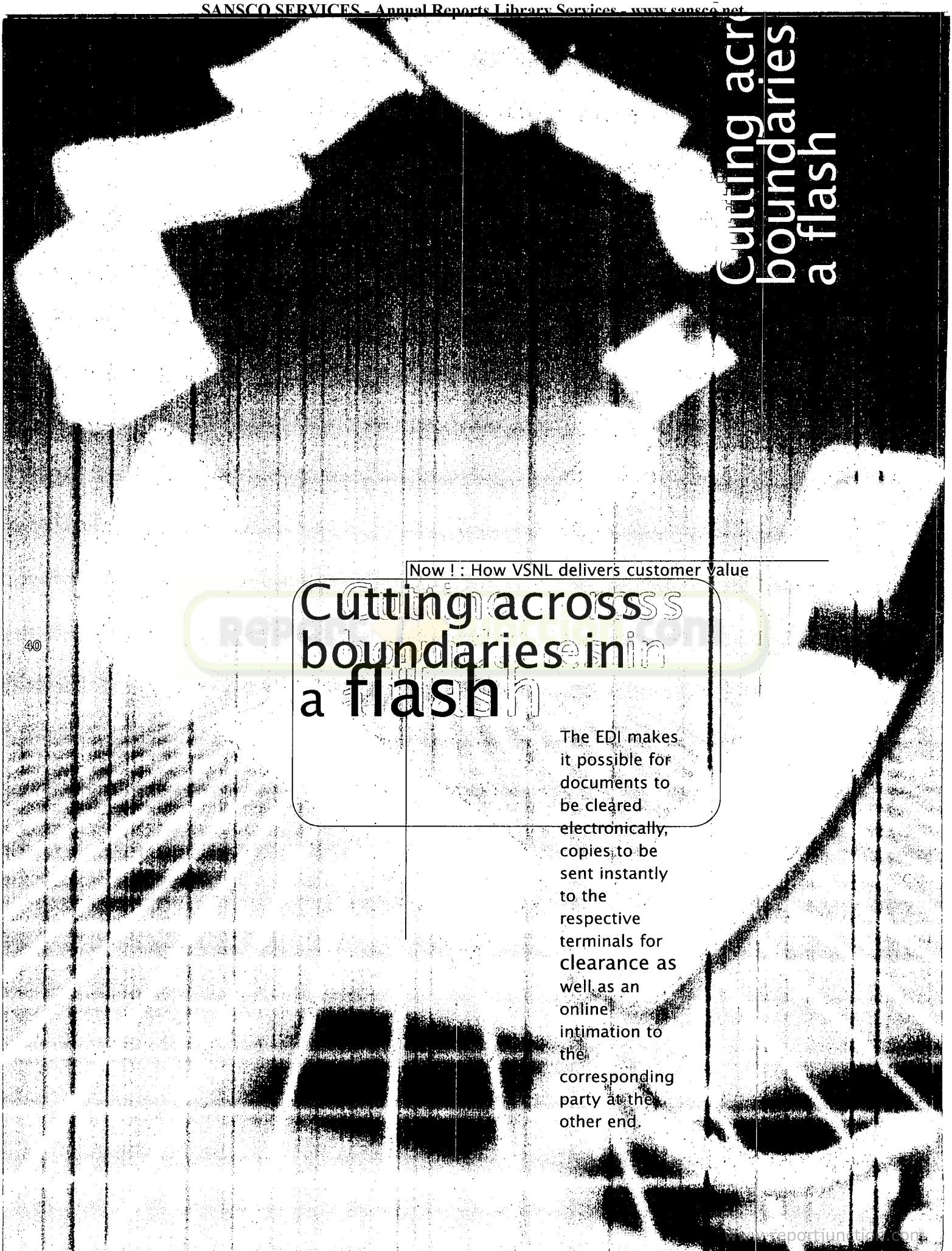
The advantages of using the **Inmarsat-M** terminal : the machine is handy and small. It can be positioned in most places without a problem. The set-up time is short. It takes about a minute for a call to be put through anywhere in the world. Data communication and voice transfer is easy. Companies like ABB intend to transfer drawings and experiment with Lotus Notes in future through this medium. 'Excuses have gone out of business,' says Mr Narayanan. 'This machine has become a priority for all projects under commissioning at remote locations. Our estimate is that we can save ten days on most decisions through this instantaneous communication facility.'

The big number that most project implementation teams like to quote is '15 per cent'. That is the saving made possible in the implementation period of projects as vast as Rs 10 billion due to a small 3 kg portable laptop costing a few lacs.

Not surprisingly, the 235 MW GVK power project at Jegurupadu was commissioned in one of the fastest times in the world. Only 18 months.

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Cutting across boundaries in a flash

Cutting across boundaries in a flash

The EDI makes it possible for documents to be cleared electronically, copies to be sent instantly to the respective terminals for clearance as well as an online intimation to the corresponding party at the other end.

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The **electronic data interchange** has the potential of changing the way in which India trades with the international community.

Take for instance the Bill of Entry which normally takes five days for clearance at most ports in India. This increases the demurrage cost which eventually has to be borne by the customer. The EDI makes for simple and quick transaction time, pushing down costs and resulting in a win-win situation for users.

The EDI makes it possible for documents to be cleared electronically, copies to be sent instantly to the respective terminals for clearance, as well as, an online intimation to the corresponding party at the other end.

Bharat Heavy Electricals Limited, the successful Indian public sector heavyweight, experimented with EDI in a pilot project that covered eight months in 1997-98 with active support from VSNL. 'The entire exercise was an eye-opener,' says Mahendra Thacker, senior manager (systems) at BHEL. 'We became aware of how a consignment could be cleared within 15 minutes as opposed to five days. Considering that we are an import dependant company with an exposure that runs into a few hundred crores, the hypothetical cost savings that we could make were surprising.'

This is what the systems team at BHEL discovered : the EDI enabled the transfer of data from one point to another where the document was required : desk to desk without any intermediaries. Since the system was password-dominated, infiltration was difficult for unauthorised users. The exchange was insulated against external factors that reduced the pace of the transaction. Since the system helps businesses trend towards just-in-time inventories, there is a lower load on working capital. This releases the funds employed in the business and ensures a payback for the EDI.

Another agency which regularly used the EDI is the Mumbai Port Trust. The MPT receives intimation in advance on the arrival of containers. The agency uses this information to classify the containers into hazardous and non-hazardous segments which helps it in allocating space for the containers within its premises. The EDI has helped in enabling a quick turnaround for the containers, increasing the velocity of business for the agency. PV Kulkarni, deputy manager (systems) at Mumbai Port Trust adds to the list of benefits. 'The acknowledgements go to all the parties concerned,' he says. 'Besides, data transfer can transpire on all 365 days of the year, taking holidays out of the system. Errors can also be sorted out electronically.'

However, Mr Kulkarni and Mr Thacker both insist that for a revolution in the area in the country it is imperative for all the agencies involved in the import and export procedure to be aligned to the EDI. 'Even if one agency is not following the EDI, the system can become ineffective. To unleash the full value it is imperative that even the country's Customs network comes onto the EDI,' says Mr Thacker.

'But if all agencies work in tandem with adequate handholding,' says Mr Kulkarni, 'the EDI can unleash a small-time revolution in the way India trades with the world.'

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Now ! : How VSNL delivers customer value

Moving millions every instant

The National Stock Exchange in India is an instance of one of the more dramatic changes to have been triggered by better communications.

The NSE is a virtual stock exchange. Members of this exchange are peppered all across India, connected as they are through their V-Sats to the NSE's central hub which facilitates active trading to transpire. At the last count, the NSE network included 1900 V-Sats over 220 cities and outlets covering 3500 trading terminals. The number of transactions effected on this exchange has made NSE one of the ten busiest stock exchanges in the world with the largest private network of V-Sats in Asia.

The NSE has been a precursor of positive change. From one office, the NSE now has ten offices in the country. From an average 3000 transactions per day, equity trades have increased to 200,000 on an average. From a business of Rs 400 million, the exchange now turns over Rs 12 billion, touching a peak of Rs 30 billion on heavy days.

However, when the exchange came into being in the early Nineties, observers said that trading passively in front of computer terminals would never replace the age-old outcry system on the trading floor, a practice followed in every exchange of the country. Interestingly, even before the decade is out, the NSE model has forced the country's biggest stock exchange - Mumbai - to eliminate jobbers and brokers on the trading floor. Most other exchanges have followed suit.

Telecommunications is the backbone which the NSE has successfully leveraged to accelerate the transition. 'It is important not just to connect between the members and facilitate trading but to be able to connect to investors and observers the world over to the extent that the transfer of information is not accurate and faithful but also immediate,' says Satish Naralkar, senior vice-president, National Stock Exchange. 'As a result, we now have leased lines between our head office in Mumbai and branches all over India. We also have a dedicated leased line from our office to the VSNL office

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The NSE is a virtual stock exchange. The number of transactions effected on this exchange has made NSE one of the ten busiest stock exchanges in the world with the largest private network of V-Sats in Asia.

which links us to our server in the US. Additionally, we have a web-site which keeps the world informed of what has been happening on our exchanges.'

Instead of merely informing the world on what has happened on its exchanges, NSE goes a step further. It has a portfolio management system which enables anyone to register as a PMS user by filling out an online registration form. With the help of a unique allotted ID and password, each PMS user can maintain his portfolio details. The PMS also sends out e-mail messages to each PMS user if the threshold values set by the user are exceeded. A facility is provided to customise the live quotes ticker for each PMS user. The user can select the stocks to be displayed in the ticker.

Additionally, the user can download the end-of-the-day copy on prices, information on historical indices and historical stock prices, various graphs and charts as well as corporate information on financial results and board meetings. The NSE website also has a facility which enables browsers to move to the web-sites of some of the companies listed and mentioned on the home-page. These services are available free of charge.

'These services form a part of the realisation that investors need to be better informed soon,' says Rajesh Damle, assistant manager, 'and that international investors need this service as much as we do within the country. With global investors investing in a big way in India over the last few years, the investor sitting in Hong Kong wants to know of developments within seconds so that he can take advantage of the opportunities presented in the market prices. That is what our services enable him to do.'

The importance of VSNL's support cannot be exaggerated. 'If VSNL's lines fail, NSE fails,' says Mr Naralkar. 'However, over the last few years since we went into business, VSNL's services have been reliable and robust. This has helped NSE deliver value to investors and observers the world over.'

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Opinions

'We use VSNL's service in the form of terrestrial **leased circuits** for both Voice and Data usage. We have 2 x 128 kbps circuits between Mumbai-London and 1 x 64 kbps circuits between Mumbai and Hong Kong. Yes, it is this kind of infrastructure support that allows global services having multi city operations to operate seamlessly for its clients with one point of contact. The circuits have been used round the clock for real time operation of both Data and Voice between Morgan Stanley, Mumbai and other MS overseas offices. The utilisation of the circuit is close to 85 % of the total band width available. Yes, the infrastructure makes it feasible for the firm to stake its claim as a truly global firm. The pay back in such investment in infrastructure by the firm is access to its global system and network without the need for a replication of the global standard operating environment on a stand alone basis. The Morgan Stanley - IT infrastructure in Mumbai is an integral part of the global Morgan Stanley - IT infrastructure. Connectivity with overseas Morgan Stanley offices is crucial because we need to: a) access Morgan Stanley global databases and software residing in overseas offices; b) exchange of e-mail and information between Mumbai and other offices is critical to business; c) participate in the MS global conference calls to do business and communicate with our colleagues. We are happy with VSNL's service. Despite having dependencies on both local and international cable carriers, it has always been VSNL's endeavour to maintain maximum uptime possible. VSNL also been helpful in expediting the commissioning process for installation of new circuits.'

- Raju Panjwani, Morgan Stanley, Mumbai

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'Aptech is the emerging Global Infotech Training Corporation. From a humble 27 centers in eight Indian cities, the Aptech network now spans over 1200 centers in 12 countries offering five brands of high quality education. Aptech's splendidly laid out Astrocity in cyberspace (http://www.astrocity.com) is being made available to over 300,000 students in the over 1200 centres spread across twelve countries.

'Aptech has pioneered new formats of education in India and worldwide. We were the first private training institution to introduce software engineering programs in India, the first to offer tele-education programs, and first to launch educational courses through our popular Website, ASTROCITY.

'Aptech has a vision of providing quality education to over one million learners by the year 2000 and this revolutionary course is one step towards the dream. Aptech continues to invest in internet technologies and multimodal courses to establish global leadership in this area in the years to come.

'Aptech's network spans over 1200 centers in 12 countries offering five brands of high quality education.

'In India Aptech has built an intranet using internet as its backbone. Aptech is using VSNL as its ISP and has taken a number of **leased** and dial-up lines to establish its intranet. Aptech is exhaustively using the services of VSNL for getting its centres connected to its intranet as well as the internet. VSNL is definitely contributing to the success of Aptech since IT is the fundamental backbone for all our business. The lines have an uptime of 98 per cent for the 64K leased lines with a fairly good performance as far as the response time and rectification time in the case of any breakdown. What we like about VSNL is round-the-clock support and the immediate redressal of problems. The single window service which VSNL has for getting leased account for the internet is very welcoming and convenient.'

- Nasir Ahmed, Aptech Limited

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Business analysis and management practices

Indian telecom structure

The Ministry of Communications in India has a Telecom Commission. This, in turn, is constituted by a Chairman and Members who represent Services, Technology, Finance and Production. VSNL reports to the Member (Services).

Corporate structure

VSNL is managed by a Board which comprises four functional and three part-time Directors in addition to the Chairman and Managing Director. The Chairman and Managing Director is assisted by Directors in charge of operations, development, network and finance respectively. Reporting to this tier is the Company Secretary and the corporate office. The latter comprises divisions like planning, operations, traffic, administration, finance and research. VSNL has branches in the following Indian cities : Mumbai, Pune, Arvi, Gandhinagar, New Delhi, Dehra Dun, Jalandhar, Kanpur, Calcutta, Chennai, Bangalore, Ernakulam and Hyderabad.

Services offered

Videsh Sanchar Nigam Limited (referred to as 'VSNL') offers basic and specialised services. The basic services include telephony, telex and telegraph. The specialised services include gateway packet data transmission, EDI, the electronic mail (Gems 400), the on-line data search, the Internet, INTELSAT business service, INMARSAT mobile services, leased channels, transmission of signals for international television broadcasts and video-conferencing.

Global partners

The global partners with whom VSNL works to deliver services of international quality include : INTELSAT and INMARSAT in the field of satellite communication; ICO, Iridium, Globstar and ASC in the field of global mobile personal communication services; Telstra-Vcomm in the area of V-Sats; with Aptech, NIIT and Skoolnet for the Internet; with Global One, IBM, TMI, Concert, Equant, Cable and Wireless and Worldpartners in the field of Global Managed Network Services.

Assets

VSNL's capacity for telephone switching systems is in the order of 32,310. These have been distributed over Mumbai, New Delhi, Jalandhar, Chennai, Ernakulam and Calcutta. As on 30 September, 1998, VSNL had direct telephony links with 77 countries supported by 17,000 circuits. Its top ten partners include USA (5111 circuits), UAE (2012 circuits), UK (1698), Saudi Arabia (1049), Canada (777), Singapore

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(598), Germany (494), Japan (394), Australia (318), Hong Kong (269). The company's satellite earth stations have been distributed over nine locations within India : Arvi (4), Dehra Dun (2), Mumbai, Bangalore (3), Calcutta (2), New Delhi (2), Jalandhar, Chennai (2) and Ernakulam. The first was set up in 1971 and the last at Ernakulam was commissioned in March, 1998. Wide-band submarine cable analog systems connect VSNL via the IOCOM Cable and the Gulf Cable at Chennai and Mumbai respectively. India owns 47.50 per cent of the first and 50 per cent of the second. In the segment of wide-band submarine optical fibre cable systems, the FLAG and SEA-ME-WE2 cables land at Mumbai. VSNL's mobile services are provided through INMARSAT.

Settlement rates

Negotiations continue with international carriers to achieve uniform settlement rates. It is in the company's interest to have a uniform settlement rate with all carriers. If this happens, it is expected to reduce - or even completely eliminate - the refiling of calls from the US. This will help in balancing the incoming-outgoing ratio, thereby reducing pressure to lower the accounting rates. Besides, the reduction in pressure from the FCC will minimise any pressure on the company's revenue sharing agreement with the DoT as there is little chance of violation of VSNL's net revenue band, thereby helping to protect the company's future earnings.

Strategy

The company has an aggressive investment plan and infrastructure build-out strategy. VSNL expects to spend around $ 1.4 billion between 1998 and 2002 in various projects. The company will continue to consolidate its core businesses in terms of quality of infrastructure and service and remains committed to the capex programme for investment in this and value-added services. This will help the company diversify its earnings away from telephony. Following the government's announcement of the new media uplinking policy, the company intends to invest $ 30 million - this is $ 21 million more than was planned originally - in TV uplinking services and technology. The media proliferation in India is creating a large market for these services which VSNL can offer at competitive and profitable rates. Besides, the company intends to invest in the SEA-ME-WE3 cable, mobile services like the ICO, Iridium and ASC, new switches, new earth stations and business networks.

New services

The new services introduced during 1997-98 were the Frame relay services (Concert, Global One, IBM) for high-speed data communication, ISDN on international telephony, Internet access and the Inmarsat Mini-M for Land mobile satellite communication. The services launched after March, 1998 have been the India Direct Services for calling India from abroad (while paying in Indian currency), TV uplinking for beaming of TV programs live from Indian soil and VSAT-IBS for high speed data communication using the VSAT terminal. TV Uplinking service has already begun. This service is expected to generate substantial revenue with proliferation of TV channels and competitive

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tariff bringing international channels to uplink from India. The services that are likely to be offered in the foreseeable future are : Calling card services, Fax over Internet and e-commerce.

Accounting policy

VSNL follows the Indian GAAP in its accounting practices. Income is accounted for on an accrual basis and is reflected as gross revenue. Conservative practice has been the feature of its accounting policy. For instance, the provision for doubtful accounts increased from Rs 33 million in 1996-97 to Rs 684 million in 1997-98 as a measure of caution. Besides, all the interest income from the GDR proceeds of $ 690 million was capitalised and not treated as an income in the profit and loss account.

Income split

From a macro-perspective, there has been a small shift in the streams of income contributing to the corporate turnover. In 1994-95, for instance, traffic revenue contributed 98 per cent of the overall turnover of VSNL; in 1997-98, this was down to 94.70 per cent. To a large extent this was on account of the component of Other Income rising from less than one per cent in 1995-96 to nearly five per cent in 1997-98. The large increase in Other Income was on account of foreign exchange gains derived out of the devaluation of the Indian currency. This form of income is unpredictable and cannot be counted as a recurring feature of the profit and loss in future.

Income head	1995-96	1996-97	1997-98
Traffic revenue	44,038.04	51,712.96	60,749.84
Intelsat/Inmarsat	280.37	375.59	501.28
Other Income	412.31	747.24	3,110.20
Total	36,067.58	52,835.79	64,361.33

(All figures are in Rupees million)

Traffic revenue

Even though, telephony still accounts for the biggest chunk of revenues for VSNL - 94.70 per cent of the revenues came from this segment in 1997-98 - value-added services form the fastest growing segment. For instance, the contribution of leased line business to the corporate turnover has increased from 2.28 per cent in 1995-96 to 4.73 per cent in 1997-98. Interestingly, telex and telegraph revenue has been trending downwards - clearly a sign of the times.

Traffic revenue	1995-96	1996-97	1997-98
Telephone	42,329.32	49,317.84	57,527.39
Leased lines	682.21	1,171.19	1,886.10
Telex	645.72	575.76	452.57
Internet	20.92	177.40	560.90
Television	136.24	105.88	109.36

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Traffic revenue	1995-96	1996-97	1997-98
GPSS	122.86	81.37	81.44
Telegraph	77.95	68.41	62.49
E-mail (GEMS)	27.71	62.60	134.94
Global network service	10.61	22.81	55.41
Others	3.93	10.62	43.86
Variances (net)	(19.44)	119.08	(164.62)
Total	44,038.04	51,712.96	60,749.84

(All figures in rupees million)

Geographical split of income

Incoming calls into India have increased more than outgoing calls from the country. For instance, incoming calls rose from 806 million minutes in 1995-96 to 1257 million minutes in 1997-98, a compounded annual growth rate of 24.86 per cent. Meanwhile, outgoing calls increased from 341 million minutes to 428 million minutes over the same period - a CAGR of 12.03 per cent only. This variation is the result of falling tariff in some of the developed countries, making it cheaper to call India from foreign countries. The lower tariff has widened the market for long-distance calling. Given India's vast expatriate population in these countries as well as the liberalisation of the economy, the increase in incoming calls has been noteworthy. Interestingly, of the total incoming traffic handled by VSNL, the percentage of calls from the US has increased considerably over the last few years : from 34 per cent of the total volume of inbound traffic in 1994-95 to 46 per cent in 1997-98.

Incoming traffic	Per cent of incoming traffic		
Country	1995-96	1996-97	1997-98
USA	39	44	46
UAE	14	14	14
S. Arabia	7	7	9
UK	7	7	6
Canada	4	2	2
Others	29	26	23

Outgoing calls have increased from 341 million minutes in 1995-96 to 428 million minutes in 1997-98. This is a CAGR of 11.87 per cent. Outgoing calls from India are influenced largely by the prevailing tariff for international calling payable within India. It is the management's conviction that if tariff for outgoing calls is reduced within India, there would be a rise in international calling from within the country, helping to reduce the difference between incoming and outgoing traffic. The issue of pricing is beyond the control of VSNL and is laid down by the Department of Telecom, India and are subject to regulation by the Telecommunications Regulatory Authority of India (TRAI). The rates are also influenced by countries with whom India has extensive

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trade relations as well as the density of expatriate population. The drop in the total outgoing traffic to the US appears to be a temporary phenomenon in view of refiling of calls.

Outgoing traffic	Per cent of incoming traffic		
Country	1995-96	1996-97	1997-98
USA	15	13	12
UAE	10	9	8
S. Arabia	20	20	20
UK	7	9	9
Canada	3	3	3
Others	45	46	48

Revenue split

Because VSNL has handled incoming calls more than outgoing ones, the company has earned more foreign exchange than rupees. The component of forex as a percentage of the overall traffic income profit of the company has been influenced by the stronger rise in incoming calls over the last few years as well as the steady drop in the value of the Indian currency. The currency mix of VSNL's income profile could change only if the DoT makes international calling from India cheaper and should the rupee strengthen.

Currency	Per cent of total revenue		
	1995-96	1996-97	1997-98
Rupee	34.02	33.91	35.46
Hard currency	65.98	66.09	64.54

Other income

The non-core business income of the company comprises income from investments with the Unit Trust of India, interest on bank and other deposits, rent, miscellaneous income and profit from foreign exchange fluctuations. Forex gains are unpredictable in nature and transpire only in sync with the depreciation in the Indian currency. However, over the last few years, forex gains have been contributing heavily to Other Income - from 53 per cent to around 79 per cent in 1997-98.

Nature of Other Income	1995-96	1996-97	1997-98
Forex gains	219.48	529.77	2466.26
Percentage of Other Income	53	71	79

Revenue sharing agreement

The revenue-sharing agreement between VSNL and the DoT covers the following points : for calls going out of the country in which VSNL has to remunerate the foreign carriers, VSNL passes on the entire receipt from DoT to the international

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carrier except for Rs 10 per minute which it retains as its charge. For all calls coming into the country, VSNL retains Rs 10 per minute and forwards the rest to the DoT. This RSA is valid between 1998 and 2002. Beyond the year 2002, the formula would be reviewed to ensure that VSNL's revenue would stay in the range of Rs 9 to Rs 11 per paid minute.

New value-added services

VSNL is contemplating the formation of a subsidiary to operate all Value-added services where customers need focused attention. E-Commerce and Fax over Internet are the new services under consideration. Besides telephony, the premium services of leading telecom companies are: managed data network services, Internet and e-commerce. In terms of technology VSNL is at par with other international telecom Companies.

Growth areas

The growth areas outlined by VSNL are : Internet, International telephony, leased circuits, xDSL, ATM and IP based services. It might be pointed out here that GMPCS gateway of ICO and Iridium will generate revenue from their operation. VSNL's investment in ICO has earned it the franchise right for ICO services in India and neighbouring countries.

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Margins in 1997-98

VSNL is moving towards a high volume-low margin trend in business in line with the international trend. VSNL continuously endeavours to provide value-added services, where the profit margin is comparatively higher.

Costs

Network cost is the biggest cost component for VSNL. Interestingly, this is also the area in which the company has made a remarkable improvement over the last few years, contributing to profitability in the process. For instance, network cost as a percentage of the total income was 80.59 per cent in 1995-96; this dropped to 73.21 per cent in 1997-98. This was achieved through better planning and efficiencies. Around 30 per cent of the network cost for 1997-98 was accounted for by payments made to international telecom agencies for telephony transmission. On the overall, the management expects to bring down the cost of service as demand increases. VSNL's cost to consumers, except for USA and Canada, is at par with that of the other global players.

Year	1995-96	1996-97	1997-98
Network cost (Rs / bn)	36.05	42.41	47.12
Per cent of revenue	80.58	80.27	73.21

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Year	1995-96	1996-97	1997-98
Network cost per minute of telephone traffic (Rs)	31.43	30.62	27.96
Percentage paid to other international agencies	–	_	30.00
Network cost / employee (in million)	14.05	15.59	15.83

Network cost split - by currency

Year	1995-96	1996-97	1997-98
Rupees	22,796	27,891	32,538
Foreign exchange	13,251	14,522	14,854

(Figures are in rupees million)

Network cost split - by item

	Per cent of total network cost		
Year	1995-96	1996-97	1997-98
Transmission charges	85.44	85.13	87.08
License fee to DoT	9.55	9.78	7.86
Rent for land lines	2.35	2.00	1.56
Internet transmission	0.03	0.21	0.39
Others	2.63	2.88	3.11

Personnel cost

There has been an upward revision in the amount paid to employees in 1997-98 over the previous year. This increase was necessitated in keeping with inflation as well as the additional manpower required as a result of the expanded network of the company. It is the management's belief that manning is relatively low in VSNL and that staff cost is reasonably under control at VSNL.

Year	1995-96	1996-97	1997-98
Personnel cost (Rs / mn)	461.56	566.47	804.18
Total revenue (Rs / bn)	44.73	52.83	64.36
Per cent of total revenue	1.03	1.07	1.25
Number of employees	2818	2873	2861
Average remuneration per employee (Rs / mn)	0.164	0.197	0.281

Productivity

It is VSNL's emphasis to increase productivity at all levels within its organisation. We believe that we are optimally manned. Besides, asset creation is increasing faster than

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the number of employees.

Year	1995-96	1996-97	1997-98
Total revenues (Rs / bn)	44.73	52.83	64.36
Net profit (Rs / bn)	4.09	5.05	9.68
Per employee			
Revenue (Rs / mn)	15.87	18.39	22.50
Net profit (Rs / mn)	1.45	1.76	3.38
Average annual cost*	165	199	280

*(*Rs '000, based on the average number of employees for the year)*

Shareholders' funds

VSNL's equity capital consists of 95 million shares of Rs. 10 each. Of this 15 million shares were created as a result of the GDR issue in March, 1997 at the equivalent of Rs 1000 per share. The company had free reserves of Rs. 40.83 billion at the end of 1997-98. Earned reserves accounted for 65 per cent of the reserves while share premium account comprised 35 per cent. There is no revaluation reserve.

Year	1995-96	1996-97	1997-98
Equity (Rs / mn)	800	921.65	950
Reserves (Rs / mn)	12377	28857	40853
Reserves as % of net worth	94	97	98

Debt structure

VSNL is virtually a debt-free company. It has been the management's strategy to fund its asset creation as well as its working capital through net worth and internal accruals. However, this strategy may be reviewed in the future. With a low debt-equity ratio of .04 as on 31 March, 1998, VSNL is attractively placed to take on cheap debt as a means of funding its aggressive investment plan over the coming years.

Year	1995-96	1996-97	1997-98
Debt (Rs / mn)	1115.78	2502.77	1562.31
Interest cover	116	205.5	1245.9

Fixed assets

Although the telecom industry is a capital-intensive one, VSNL's fixed assets (net of depreciation and excluding investments in INTELSAT and INMARSAT) comprised only 30 per cent of the total capital employed as on 31 March, 1998. One explanation for this is that VSNL is a service provider for international calls only and has not needed to set up the basic telephony infrastructure within the country.

Plant and machinery accounted for 90 per cent of VSNL's gross block towards the close of the financial year under review. This comprised the following items :

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Particulars	1995-96	1996-97	1997-98
Sea cable	2,496	2,497	3,291
Earth stations	2,463	2,627	2,924
Exchanges	1,488	1,985	2,375
Land cable	261	288	293
Other cables	153	153	155
Other network equipment	3,002	3,572	4,697
Total	9,863	11,122	13,735

(All figures are in Rs. million)

Depreciation

Depreciation on fixed assets is charged according to the rates prescribed under Schedule XIV of the Companies Act, 1956. The total depreciation charged during 1997-98 was 4.41 per cent of the gross fixed assets at the end of 1997-98. The ratio is not expected to change significantly over 1998-99.

Addition to fixed assets

During the financial year under review, the company added assets worth Rs. 2.87 bn to its gross block. The bulk of this went into investment in submarine cables, earth stations and network equipments. During 1998-99, VSNL expects to add an additional Rs. 11.36 bn to its gross block. The budget for proposed capital expenditure is given below :

(Rs. in million)

Scheme/area	1998-99
Transmission	4031.31
Capital contribution	630.00
Switching	2091.80
Building and civil works	695.00
Value added services	605.00
Video facilities	355.00
Technical equipment	180.00
Mobile satellite services	156.00
Replacement schemes	233.00
General	90.00
Office equipment	70.00
R&D	60.50
Restoration	50.00
Training	3.50
Others	795.39
Total	10,046.51

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Investments

VSNL is a major investor in ICO Global Communications (Holdings) Ltd. This is an international project to enable global communications through hand-held satellite telephony. Over 96 percent of VSNL's portfolio of Rs. 3.74 bn is accounted for by the ICO investment. The returns from this investment would be in the form of dividends in the future and also notionally in the form of a rise in its market capitalisation.

Debtors

The billed outstandings of VSNL have generally been high over the years because of a billing and settlement cycle in accordance with ITU-T recommendations. The debtors position of Rs 16.82 bn as on 31 March, 1998 corresponded to 95 days of the total revenue for the company (105 days at the end of 1996-97). This is not a cause for concern. Nearly 43 per cent of the debtors position comprised dues outstanding for more than six months (Rs 7.27 bn); this was 33 per cent (Rs. 5.06 bn) in 1996-97. Of this, Rs 788.7 million has been provided for in the 1997-98 accounts.

Loans and advances

The loans and advances made by the company are in connection with the company's business. At the close of the last financial year, 91 per cent of the company's loans and advances position was in the form of advance corporate tax paid to the Government.

Cash and bank balances

The proceeds of the GDR issue as well as the cash flow generated from the business contributed to the considerable cash and bank balance of the company. It has been the company's endeavour to employ this cash resource safely before the time comes for investing the same into assets.

Current liabilities

More than half the capital employed (54 per cent) by the company in 1997-98 comprised current liabilities. Traffic creditors comprised the biggest chunk : 75 per cent. This is the amount which the company owes to various carriers.

Rupee devaluation

VSNL's net revenue per minute grew 1.20 per cent - from Rs 9.96 to Rs 10.08 in 1997-98. This was on account of improved working efficiencies and the 9 per cent depreciation in the Indian rupee. The depreciation in the Indian rupee benefits VSNL : the rupee exchange rate used for settling with the DoT is fixed at the beginning of the year; the company handles more incoming calls than outgoing ones, leaving it forex-surplus.

Corporate tax status

VSNL incurred a corporate tax of Rs 4.31 bn in 1997-98, representing 30 per cent of its pre-tax profit. Additionally, the company has to pay a dividend tax at the rate of 10 per cent of the amount of dividend proposed. The corporate tax paid out by the

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company is one of the highest in India's corporate sector.

Global scenario

Collection charges (the tariff payable by the public to the service provider) have been falling by 10-15 per cent per annum, triggered by changes in technology which are making bandwidth cheaper, deregulation which has encouraged new service providers to set up assets and stronger marketing initiatives among these carriers in the developed countries. These carriers have generally tried to expand the market by lowering their collection charges. However, the growth in a number of markets has not happened because of recession in these countries. VSNL escaped the brunt of this recession because of its considerable exposure to the US and the Middle East where the economies continued to be robust in 1997-98.

Outlook

The outlook for VSNL continues to remain optimistic.

- The volume of traffic handled by the company is steady, reflected in strong earnings in the first half of 1998-99. As a result of telephone rates falling the world over, we expect this trend to continue. International minutes have been growing by a compounded annual growth rate of about 25 per cent over the last five years and should India grow by 6.5 per cent over the coming years, this trend in traffic increase could well be supported.

- The strength of the revenue-sharing agreement was reflected in strong earnings in 1997-98. We expect the RSA to provide adequate insulation to the company's bottomline over the tenure of the agreement with the DoT.

- Besides, we expect an improvement in the bottomline through the evolution of the business mix from plain telephony to value-added services. The latter comprised only 4.4 per cent of revenues in 1997-98; the management expects this to increase to around 10 per cent by the turn of the century. We expect that these services will have a significant impact on earnings since the marginal cost of these services is low.

- International minutes per line in India are still among the lowest in the world. VSNL currently produces an average of around 10.4 minutes per month which is well below its peers in the developing countries who are producing around 200 minutes per month. As the utilisation increases, VSNL is expected to benefit.

- According to the DoT's five-year plan, the number of fixed lines in India is expected to double between 1997 and 2002, a compounded annual growth rate of 21.3 per cent. This is expected to enhance the international traffic significantly.

- The IT Action Plan submitted by the National Task Force on IT and Software development made 108 recommendations in its notification in May, 1998. Among the recommendations, figure the directive to open internet nodes at all district headquarters and local charging areas by early 2000; providing internet through authorised cable TV; one to three per cent of every Ministry or Department shall be

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earmarked for applying IT in the Department or the sector. VSNL is confident that once these measures are implemented, it will emerge as a big beneficiary as these measures will help in expanding its value-added services.

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Ratios

Profitability ratios	1995-96	1996-97	1997-98
Pre-interest profit margin (OPM)	18.49	18.34	21.95
Post-interest profit margin (GPM)	17.25	17.21	23.23
Cash flow margin %	10.55	10.72	16.07
Net profit margin %	9.16	9.55	15.04
Admn / salaries / expenses as % of revenue	1.48	1.65	2.91
Pre-interest profit as % of ACE	59.42	38.39	34.00
Return on average net worth	36.20	23.50	27.07
Total expenditure / total income %	84.14	84.36	78.26

Business characteristics	1995-96	1996-97	1997-98
Tax rate %	40.18	37.98	30.17
Debt-equity ratio	0.08	0.08	0.04
Income-debtors ratio	3.36	3.45	3.83
Income-average assets ratio	4.77	4.61	4.67
Net WC as part of TCE %	35	64	66
Current ratio	1.26	1.90	2.07
Quick ratio	1.25	1.90	2.07
Cash-bank balance as % of TCE	16.84	45.21	57.97
Depreciation as % of Gross Block	5.28	4.67	4.30

Growth	1995-96	1996-97	1997-98
Growth in turnover	19.37	15.37	17.91
Growth in PBIDT	50.17	13.92	41.81
Growth in PAT	37.04	23.24	91.78
Growth in cash profit	34	21	84

Per share data	1995-96	1996-97	1997-98
Earnings	51.20	54.76	101.88
Dividend %	45	35	40
Book value (Rs)	164.72	323.10	440.03
P/E	23.44	18.17	8.25

Note : Total expenditure does not include interest and depreciation. WC stands for working capital, TCE stands for total capital employed. ACE stands for average capital employed.

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Ratio analysis

The pre-interest profit margin and the post-interest margin have moved up due to a strengthening of the business and other factors. Interestingly, both numbers are almost identical - a reference to the low interest burden of the company. Besides, the pre-interest return on the average capital employed has been almost unchanged over the last couple of years. Return on net worth is nowhere near the figure registered during 1995-96 due to the hefty inflow of GDR funds, the rates of return on deployment of these funds being lower than the return from VSNL's core business.

If the bottomline has increased despite the increase in the total expenditure as a percentage of the total income, it is largely due to a cut in the tax rate. Working capital has jumped as a percentage of the total capital employed but because this has been funded out of net worth - look at the debt-equity ratio for an indication - the margins have not taken a beating. The increase in the cash and bank balance is a comforting point though the difference between VSNL business return and financial return has accounted for a drop in profitability parameters based on total capital usage.

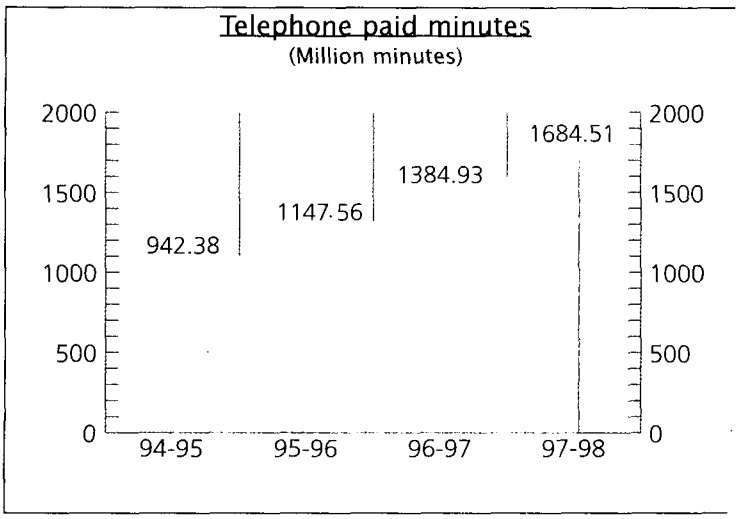
Even as the profits have increased sharply, a drop in the p/e of the VSNL stock indicates a greater value on the bourses.

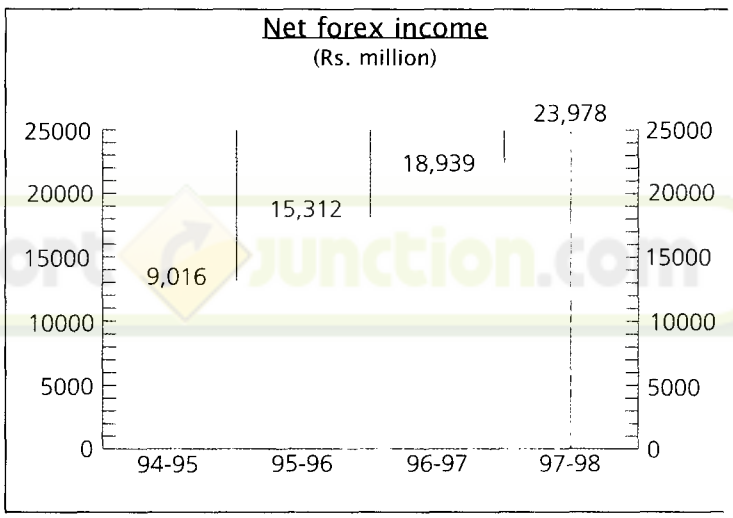
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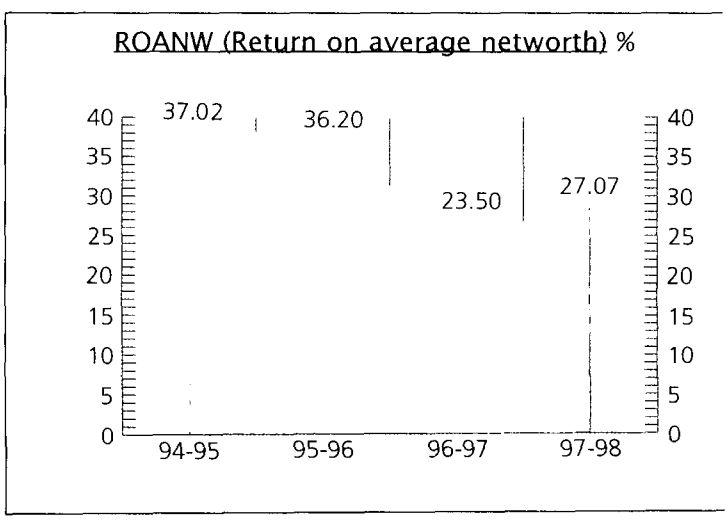
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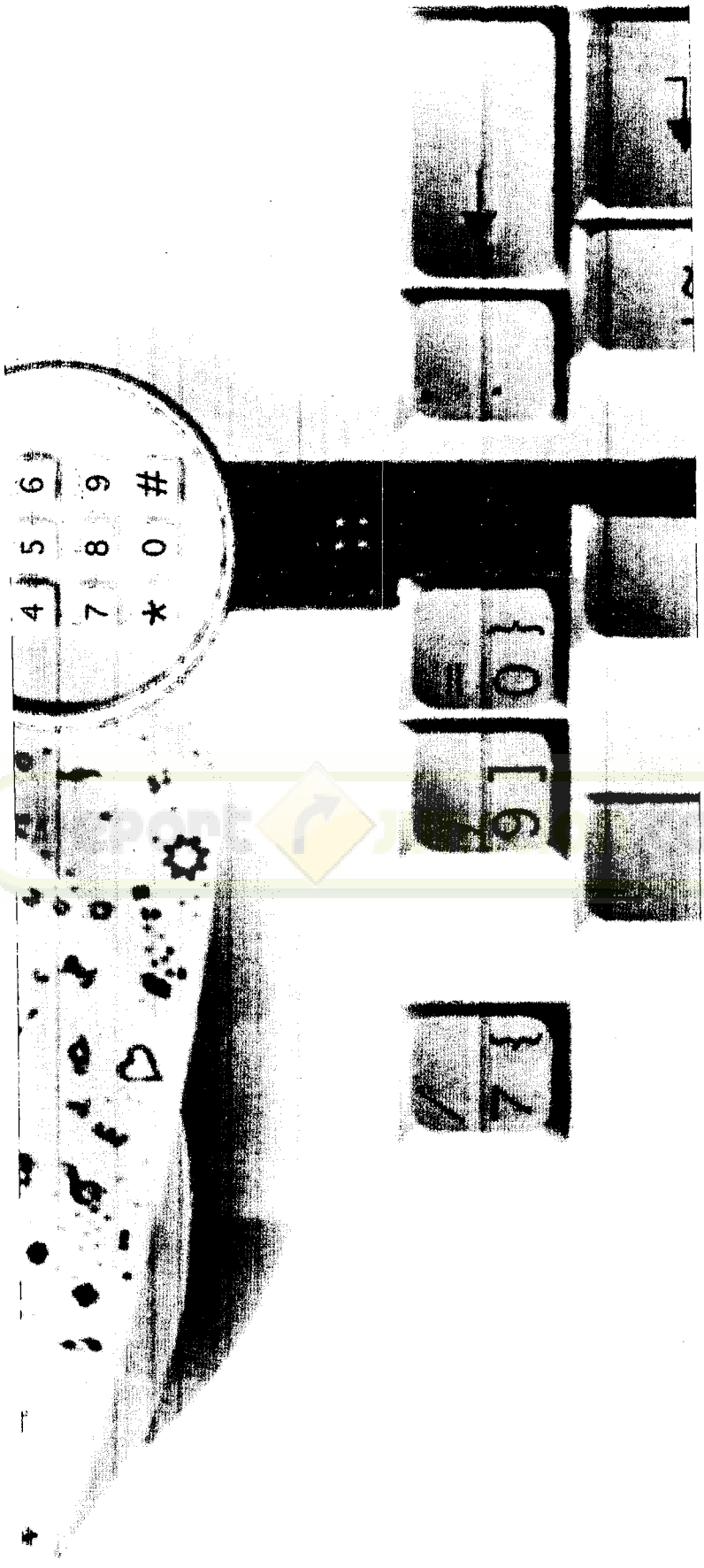




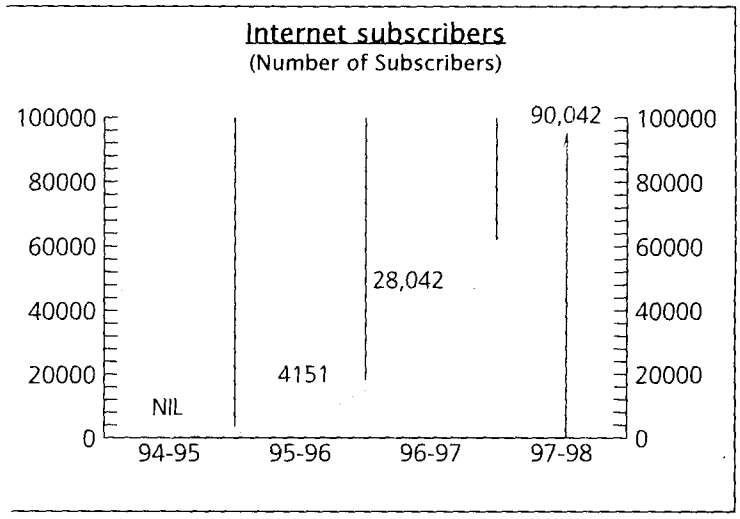


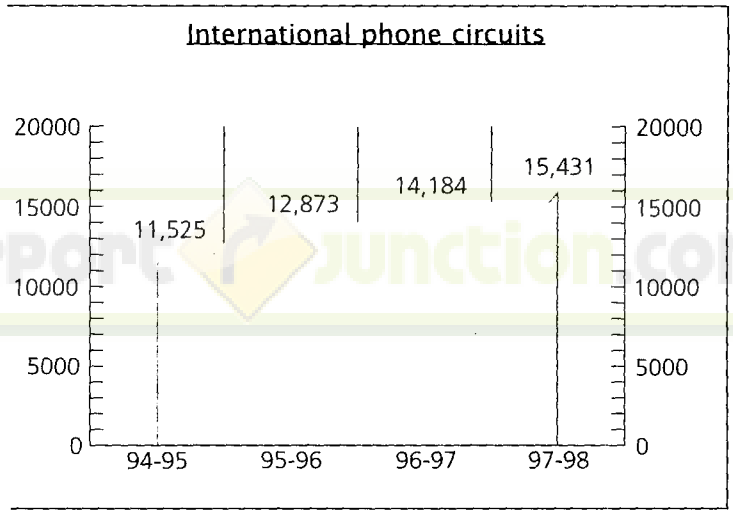
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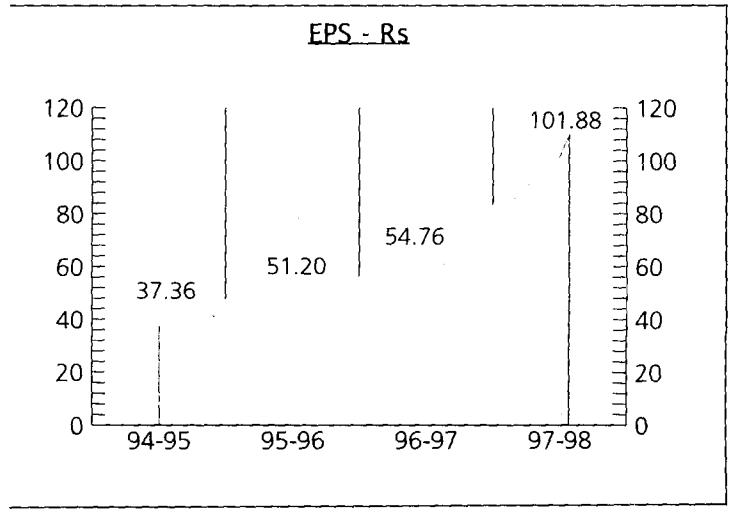
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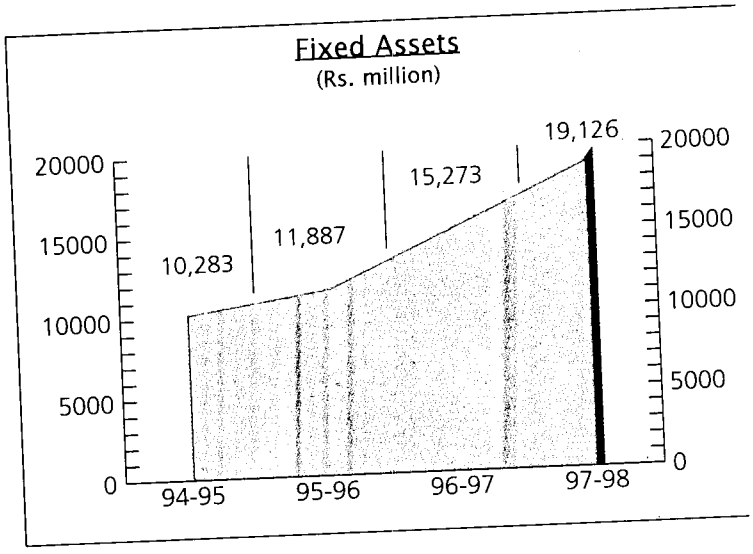


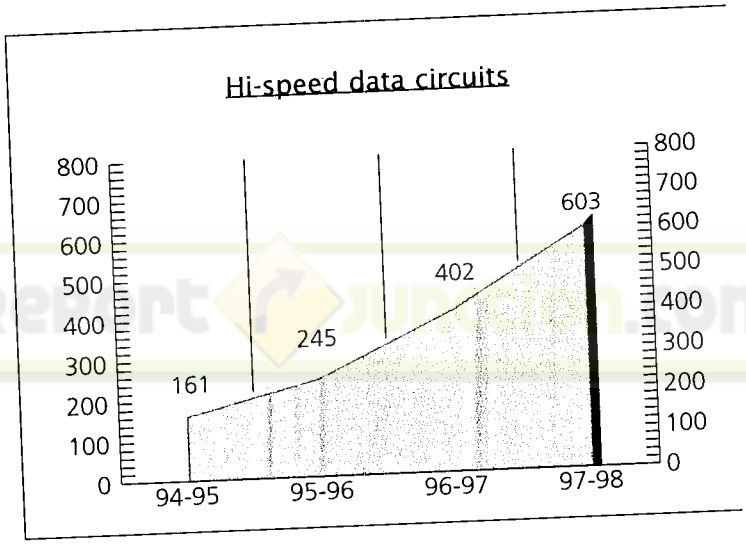


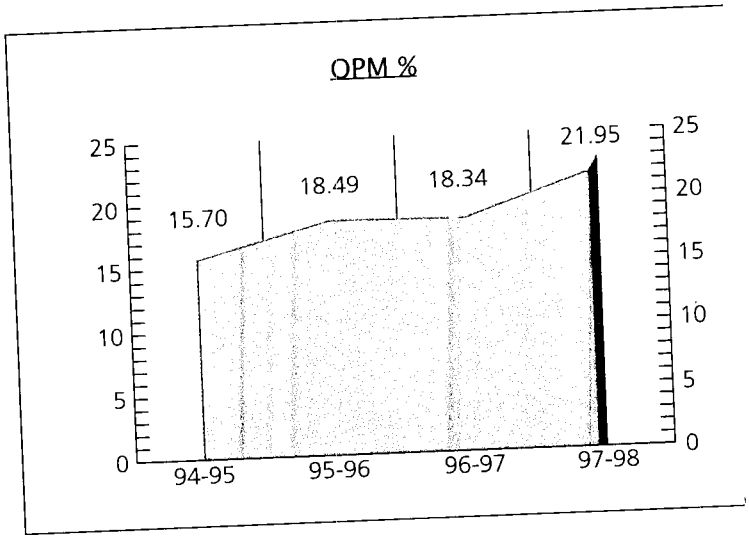


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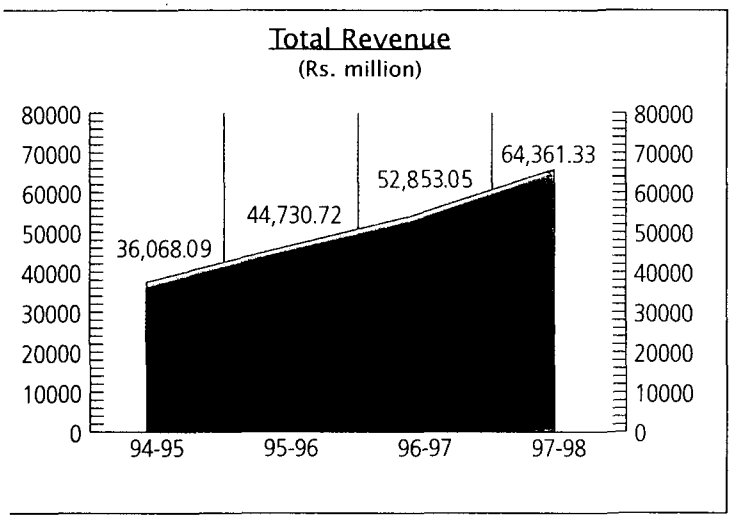
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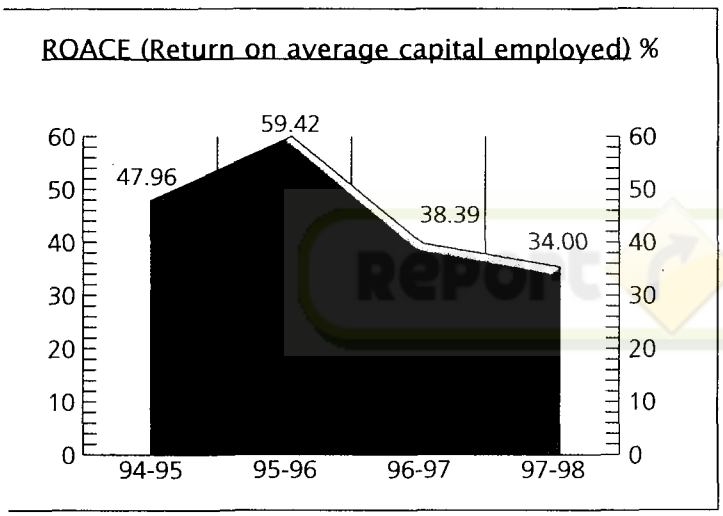


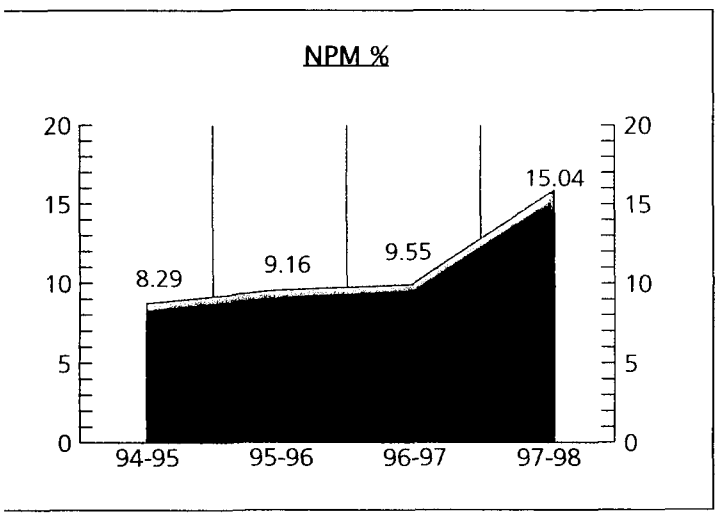


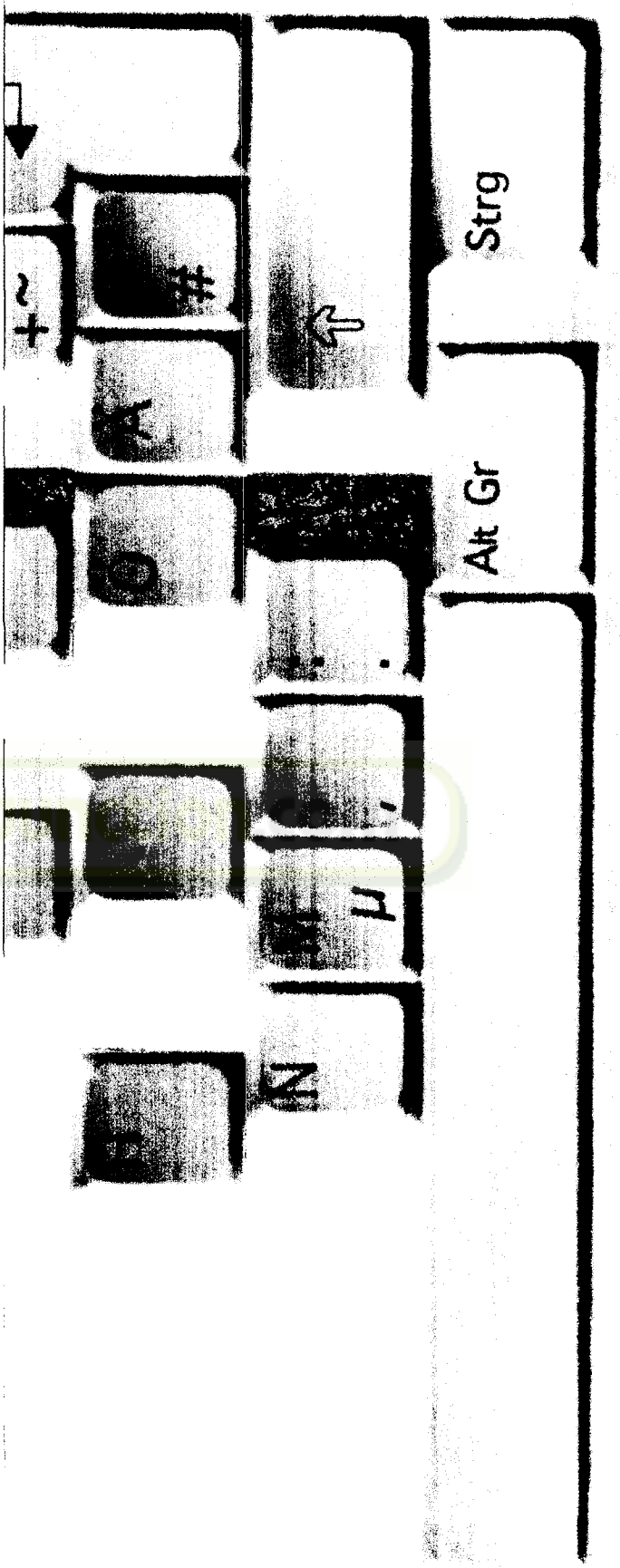


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'Economies of scale helped VSNL increase profits'

Amitabh Kumar, officiating Chairman and Managing Director of VSNL, reviews the corporate progress made during 1997-98

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Were you satisfied with VSNL's performance in 1997-98 ?

The profits that we reported in the financial year under review were well in line with expectations. We had anticipated a 50 per cent growth in profits but we ended up reporting a 91.78 per cent increase in the bottomline.

What caused an increase in profits ?

The company had a robust traffic growth during the last financial year. The resulting economies of scale helped VSNL increase its profits. Normally, this increase in the volume of traffic would have necessitated an increase in the company's infrastructure costs. This is where we scored during 1997-98 : the increase in equipment was negligible. On the contrary, we utilised our networks more efficiently, routing traffic better. One can call this better network management. This raised the capacity utilisation of the network in the process. Since VSNL is a dollar-surplus company, the depreciation in the value of the Indian currency also tended to increase our profits in 1997-98.

What were the points of satisfaction in 1997-98 ?

It was the first full year of the new revenue sharing agreement coming into force. Even though the accounting rates fell during the year, VSNL registered an increase in profits. This demonstrates the robust character of the revenue sharing agreement from VSNL's point of view. We were happy to prove this point because this was in line with the assurances that we made to the international investors at the time of the GDR offering.

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What went right for the company in 1997-98 ?

Essentially that telephony traffic increased by nearly 22 per cent despite an economic slowdown in many parts of the world including India. Since around 95 per cent of the company's income comes from this area, the impact of this increase was reflected in the bottomline. What pleased us was also the fact that some of the important projects that we had been pursuing for quite some time got commissioned during the course of the year. For instance, the gateways at Ernakulam and Jalandhar which we had commissioned in March, 1998, began reflecting their true potential. By erecting these gateways right in the middle of their markets, we helped raise the answer-seizure ratio by around 10 per cent in those regions. This impacted our revenues from these areas in a positive way. The FLAG cable was commissioned in December, 1997. This comprises high quality circuits to the Middle East and the West and since the system is of a higher quality than the satellite link, is ideal for real time applications. We commissioned an earth station at the Singapore Technology Park in Bangalore and a KU band earth station in New Delhi. These are multi-service and multi-use earth stations and can be used for Internet access, video-conferencing, V-Sat and the DTH in future. You can call it the building block in our business. I must also mention the rapid growth in the Internet connections which almost quadrupled during the course of the year. The interesting feature here was that a number of corporates availed of leased lines exclusively for accessing the Net. By the end of 1997-98 we had 250 Net leased line customers and judging from the demand, we expect this segment to grow another 100 per cent during the current financial year.

What kind of customer service did VSNL deliver in 1997-98 ?

The increase in the Net users has resulted in a bigger population of the VSNL customer base. These customers are spread throughout the country. To enable them to get competent service, we strengthened our marketing initiatives in most places and set up help desks to guide customers. There was also a staff re-orientation in the area of customer support. We created a comprehensive multi-service ability at the helpdesks so that the customer got serviced without a delay. Specialised training was intensified to the customer care personnel. During the year we also got IIM-Ahmedabad to come in and conduct courses with an emphasis on teamwork at VSNL. Among the other initiatives, the Infofax service was activated which now enables customers to get forms and literature on our products on the phone or fax.

What areas were you not happy with the performance of the company in 1997-98 ?

The only area of concern is that the high tariffs in India have restricted the volume growth in our business. For instance, the growth in the outgoing calls was only 11 per cent in 1997-98. The tariff pricing is not within our control but I am convinced that if the tariff for international telephony is lowered, the market will explode, benefiting the DoT, VSNL, the Indian economy and the paying customer.

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With the earnings scenario remaining optimistic, the value for shareholders can only rise over the long-term.

The Future

What is the outlook for VSNL in 1998-99 ?

We estimate that accounting rates could drop by 8 to 10 per cent during 1998-99. With the drop in accounting rates worldwide, we expect that a tariff rebalancing will take place. The impact of this is likely to be an increase in the outgoing calls and a reduction in refile. Our estimate is that if tariff drops by 40 per cent, traffic going out of the country could increase by 50 per cent. This would be good for VSNL's business.

What is your outlook on collection rates ?

The TRAI have now come out with their proposal on tariff rebalancing. There is a good possibility that collection rates at the foreign end could also drop during 1998-99 in line with the global trend to cheaper bandwidth and increasing competition. Over the years, the collection rate for calls from the US to India have dropped from $ 1.20 per minute to 70 cents a minute on an average, driving growth in the area of calls coming into India. This has benefitted VSNL considerably - and will do so if the rates keep trending lower.

How would VSNL be affected if ISPs are permitted to offer Net services ?

The impact on VSNL would be positive. This is why : ISPs would need connecting lines from VSNL. So even if we encountered competition in the field of Net access, a

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whole new market would emerge for the lines. As a result, VSNL is likely to emerge as a connectivity engine. Even if 100 ISPs come into the field with a low demand, we expect no less than 400 megabits going out of VSNL. We are fairly well equipped with an aggregate capacity of 15 gigabits of capacity on the Flag and Sea-Me-We3 (operative in 1999).

To what extent can the decision by the government to permit uplinking for private broadcasters from within India help VSNL ?

We see substantially more business coming in from this value-added service - a 100 per cent increase in 1998-99 - as my estimate is that 20 channels should start by the end of the year. It makes more business sense for the channels to uplink from within India. Programmes which involve an immediacy in the sharing of information - news channels - will increase.

How do you see the business scenario for VSNL ?

From the national perspective, the IT recommendations made by the government will drive business growth for VSNL indirectly from 1998-99 onwards. For instance, a minimum budget has been earmarked for each government department. This can only broaden the IT and telecom base in our country. My estimate is that the non-telephony component of our business is expected to grow 100 per cent in 1998-99 and by the turn of the century, increase to around 10 per cent of the total income profile of the company.

From the global point of view, the merger between leading international carriers is expected to increase their bargaining power, making them offer rates which are lower than other carriers. Our estimate is that this will make accounting and collection rates more attractive the world over and help to expand our volumes. The mergers will also enable a consolidation of technologies and increase standardisation, making it easier for us to launch multimedia and other networks. The slowdown in the global economy is not expected to significantly affect VSNL because our traffic is of a different mix catering to the exporting companies, Indian corporates, the expatriate population and the local population with relatives abroad. Besides, the US and European markets are still doing well, so we do not expect any negative impact on VSNL's financials for 1998-99.

How does the company expect to enhance the value for its shareholders ?

By taking the initiative in a number of areas : for instance, by building a cost-advantage in networks that can be sustained; by buying large capacities cheap as a pre-emptive strategy; by building superior customer relationships; by bringing in the concept of account managers so that customers have one face with which to identify VSNL. My opinion is that in view of the state-of-the-art infrastructure, the growth potential and the quality of earnings, the VSNL share quotes below its true value. With the earnings scenario remaining optimistic, the value for shareholders can only rise over the long-term.

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The stated aim of the company is to enhance shareholder value through the selection of state-of-the-art technologies, strong network management and providing customer value through efficient service.

Investor relations and shareholder value

VSNL initiated an ongoing investor relations programme after the successful completion of its $ 527 million GDR offering in March, 1997. Since the issue widened VSNL's shareholding to include a number of foreign institutional investors, the investor relations exercise was aimed at building a planned and focused communication with them. The company appointed a leading international investor and media relations agency to raise the company's profile amongst global investors, deepen knowledge of VSNL's activities, increase the understanding of VSNL's growth potential, create an interactive relationship with the opinion-makers and an environment which permitted the stock price to reflect the company's fundamentals fairly.

With these objectives in mind, the existing investor relations programme uses quarterly updates that provide a comprehensive review of the company's financial performance and business developments to investors. The transparency emphasis is also extended to the annual report which discusses industry and corporate developments comprehensively.

The stated aim of the company is to enhance shareholder value through the selection of state-of-the-art technologies, strong network management and providing customer value through efficient service.

The company has listed popular measurers of shareholder value and how VSNL fared

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against these in 1997-98. The management feels that it has done well in view of the Asian crisis and the slowdown in the Indian economy.

Value-creation statistics

▪ Market value-added is the excess of the current market value of debt and equity over the company's Economic Book Value (share capital plus free reserves plus debt).

	(Rs. in billion)
Current market value of equity	Rs 75.05
+ Current market value of debt	Rs 1.56
- Economic Book Value	Rs 43.34
Market value-added	Rs 33.27

▪ Total shareholders' return measures the return to shareholders in a specific financial year. This is computed by deducting the opening capital value (number of equity shares outstanding multiplied by the market price on the first day of the financial year) from the closing capital value of the stock (number of shares outstanding multiplied by the closing quote for the financial year). To this difference is added the quantum of dividend paid out during the financial year. This sum is then divided by the opening capital value for the year and expressed as a percentage.

	(Rs. in billion)
Total Shareholders' Return (TSR) =	
Closing capital value	Rs 75.05
Less Beginning capital value	Rs 84.42
Add : Dividend	Rs 0.38
Incremental Gain	Rs (-) 8.99
Incremental / Beginning capital value %	(-)10.65

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▪ Enterprise Value is also known as leveraged market capitalisation. It illustrates the total value of the firm (market value plus any debt carried and any minority interests held). EV tends to be used most commonly in calculating the EV / EBITDA multiple. This multiple is another valuation alternative to P/E and helps determine an industry / sector average or benchmark and measure a company's EV/EBITDA multiple against it. Some advantages of the EV calculation is that the resulting EV / EBITDA multiple overcomes the accounting differences across countries and in many respects provides a 'clearer' valuation argument. It also focuses on the core operating activities of the company.

Enterprise Value = (Share price x Shares outstanding) + Net Debt* + Minorities
*If a co. has net cash then deduct.

In VSNL's case, the figure works out to Rs 76.61 billion. Since the earnings before interest, tax, depreciation and amortisation is Rs 14.95 billion (no deductions have been made for extraordinary income and writebacks to the profit figure), the EV / EBITDA multiple works out to 5.12. This multiple reflects the extent to which investors have overlooked the potential in the company's equity.

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Economic value-added is one of the most popular tools for measuring shareholder orientation. EVA, which has been constructed by New York-based consulting firm Stern Stewart and Company, shows the business profits left after adjusting for the cost of servicing the capital employed in the business. If EVA is positive, the business has generated wealth in excess of what is expected by the shareholders - and vice versa. If the figure for a particular year drops below zero, it indicates that the expectations of shareholders have not been met. The usefulness of EVA is that it can be applied to divisions within a company to improve its efficiency.

The highlights of the EVA calculation as computed by the VSNL management are :

- For the cost of shareholders' funds, the actual outgo towards shareholders (dividend etc) are ignored. Instead a market-drive cost of equity funds has been considered.
- The cost of equity has been arrived at using the beta-factor for the VSNL scrip. The risk-free return in the economy (12 per cent in 1997-98) has been taken. To this is added the product of the beta factor and the stock market risk premium.
- The stock market risk premium is what investors expect to earn over the risk free return from the market. This is common across all scrips and is taken at 10 per cent.
- For VSNL, the product of the premium and the beta works out to 10 per cent. This is what investors expected to earn (over and above the risk-free return of 12 per cent) from the VSNL scrip in 1997-98. This is the correct cost of equity funds to consider for the EVA calculation.

- The base for calculating the rupee cost of equity will not be the actual average net worth of the company over the year but the market capitalisation as at a particular date. This is so because the EVA calculation uses a stock market-driven set of variables for calculating the cost of equity. The price of Rs 790 for the VSNL scrip on the NSE has been taken into account.
- For the cost of debt, the post-tax marginal cost of borrowing is calculated to be 21.43 per cent. This is based on average debt during the year and actual outflow of interest and tax.
- The weighted average cost of capital (WACC) is calculated as the average cost of debt (weighed by the average debt over the previous year) and the cost of equity (weighed by the market capitalisaton as on 31.3.98).
- Actual tax outgo is inflated for the tax shield on interest at the marginal rate of tax actually paid. This 'adjusted tax' is deducted from the Earnings before Interest and Tax to arrive at the corrected EBIT figure. A rupee cost of capital is calculated on the average capital employed (net block + net working capital) over the year by using WACC. This cost of capital is subtracted from the adjusted EBIT figure to obtain the EVA for the year.
- We have deducted the gains derived from the depreciation of the rupee and other items of extraordinary income since the predictability of this being a recurrent feature

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is difficult to predict. Had the deduction not been made, VSNL's EVA for 1997-98 would have been Rs 3.39 billion.

The calculation of EVA for VSNL is given below :

(Rs. in billion)

EBIT	Rs 11.55
Tax	Rs 4.31
Adjusted tax	Rs 4.31
Average capital employed	Rs 32.49
WACC	21.43 %
Cost of capital	Rs 6.96
EVA	Rs (+) 0.28

Year	**1997-98**
EVA (Rs /cr)	(+) 0.28
EVA / Year end capital employed %	(+) 0.75 %
PAT / average capital employed %	(+) 29.79 %
Market value of equity (Rs / cr)	75.05
Less : cash / equivalents	(-) 25.14
Add : debt (Rs / cr)	(+) 1.56
Enterprise value (Rs / cr)	51.47
Enterprise value / year-end capital employed	1.58

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Frequently asked questions

What kind of a company is Videsh Sanchar Nigam Limited ?

VSNL is an international telecom service provider offering a wide range of basic and value added services. The company acts as a gateway for all international calls for the country.

In what way is the company different from other telecom companies ?

VSNL is a service provider. It is uniquely placed as the international gateway for India. It is also a company which is highly diversified in its service - internet, global mobile services, business services and the likes.

In what way does VSNL act as the interface ?

When a call is made by a user from within the country, it is routed from the individual to the local telephone exchange. This exchange in turn relays the call to the nearest VSNL gateway. The latter relays the call outside the country to the appropriate carrier which helps in taking the call to the destination country. When calls are made into India, the international carrier brings it to the nearest VSNL gateway which in turn passes the call to the local exchange. From the latter, the call is routed to the desired number within the city. In either case, VSNL plays a critical role in the call delivery.

Is the VSNL infrastructure single-point in nature for the delivery of calls ?

VSNL's infrastructure is now spread across a number of locations of the country. The company has 6 international gateways and 17 earth stations that provide satellite connections. VSNL is also connected internationally through undersea optic-fibre than cables like the Sea-Me-We2 and FLAG which are high on reliability and access.

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What is the business philosophy behind erecting a number of gateways and earth stations ?

From a financial point of view, the company prefers to invest in projects with an IRR higher than 30 per cent, though in strategic instances this could come down to 25 per cent. The attractiveness of the project also comes from the potential of growth within the region and the ability of the company to cut costs. For instance, if there were gateways in only the metro cities of India, a call made from Ernakulam would have to be routed to, say, Mumbai, for its onward connection outside the country. This would require the call to be transported from the originating point to the local Ernakulam exchange, from the local Ernakulam exchange to VSNL's Mumbai gateway. This would also make the call delivery increasingly vulnerable to the availability of the domestic lines. Besides, there would be a high cost involved in collecting the call through the trunk route - Ernakulam to Mumbai. The decision to erect a gateway in Ernakulam would on the other hand help in collecting the call from a shorter distance, resulting in a lower cost. Besides, with connection becoming easier because of the proximate distance there would be a greater possibility of the call being put through. This higher probability helps VSNL generate greater revenue. The business decision to erect a gateway involves the cost-benefit analysis of whether a proximate gateway will enable a higher call delivery resulting in higher revenues and offsetting the costs involved.

How does VSNL view the business scenario over the coming years ?

Very optimistically, which is why the company is expanding its asset base aggressively over the coming years. The company expects that traffic will grow at around 20 per cent per annum on a conservative basis. The share of value-added services is expected to increase to around 15 per cent of the total income in five years from now (presently, the figure is 6 per cent).

How does VSNL get remunerated for the calls ?

VSNL has a revenue sharing agreement with the DoT until 2002. As per this agreement, VSNL will be remunerated a net Rs 10 per minute for calls that it brings into the country or calls that it delivers to the international carriers.

With international tariffs dropping, how will this affect VSNL ?

First, let us take the direct impact. Since VSNL's remuneration structure has been frozen in the agreement with DoT, it will be largely insulated from the drop in accounting rates and tariffs for a certain time. Any rise or drop in rates will therefore be passed on to DoT during this period. However, there is a provision for variation. VSNL's revenue per minute will be pegged at Rs 10 for the first two years of the agreement. Thereafter - from fiscal 2000 to 2002 - VSNL will share in part any losses arising from a drop in tariff rates. However, the agreement has been structured in a way that the company continues to earn more than Rs 9 per minute even if the accounting rate falls by more than 10 per cent per annum.

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Is there an indirect impact ?

A drop in telephony tariff worldwide will make it cheaper to call India. This could open up the market for calls coming into the country and increase VSNL's revenue.

Is the revenue sharing agreement reasonable ?

It is reasonable since DoT is still retaining a high share of the revenue for international calls. DoT is retaining more than 70 per cent of the net revenue for international calls. This explains why there is a provision for it to take a greater share of the loss which could arise as a result of the accounting rate revision with international carriers. Besides, the net Rs 10 per minute collected by VSNL is lower than what is collected by comparable international service carriers. Therefore, the agreement is reasonable to DoT and VSNL.

With a remuneration structure that is going to be constant for the next four years, what will drive growth at VSNL ?

Essentially two factors : volume of telephone minutes handled by the company and an increase in the operating efficiencies of the network which makes it possible for costs to be cut. Any one - or both - impact the margins of the company. A growth in the volume of telephone minutes and a more efficient management of the network have positive implications for the bottomline of VSNL.

In what way is VSNL unique ?

VSNL is India's exclusive international gateway. This exclusivity was granted by the Government in 1991 and thereafter ratified successively. This status will come up for review in the year 2004.

How is VSNL gearing up to a possible loss of its exclusive status ?

The company is gearing up to face a competitive environment irrespective of whether the monopoly status is extended or revoked. A detailed study called the **"Vision 2004"** has been conducted to identify the areas that VSNL should remain in and the new areas that it should enter. The company is strengthening its infrastructure through investments in gateways, optical fibre systems and business networks. The replacement value of VSNL's assets is $ 5 billion and future investments will position VSNL as a formidable player when competition is opened up. For instance, the company is earmarking 25 per cent of its future investments in developing new service platforms (global mobile system, satellite multimedia services, ATM, Internet and DTH). This will help VSNL spread its income profile over areas distinct from basic telephony.

Will this infrastructure be able to face the anticipated global competition at that time ?

It will. This is because VSNL is installing state-of-the-art facilities. For instance, the gateway equipment has been replaced over the last five years and today comprises modern facilities with the latest technologies. These include intelligent

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network facilities, ISDN and flexible user services. This will position most competitively against the other operators.

What is VSNL's diversification strategy ? Is it permitted to diversify by the government ?

There is no bar on VSNL from entering other businesses. The company would build and operate low cost ATM and native IP networks globally to provide a wide range of telecommunication services at a low cost base. This is why the company is putting up additional ATM network management, switching and transmission facilities, example Sea-Me-We3. New gateways are also being added in high revenue generating areas. The company is also focussing on value-added services like the Internet, DTH and global mobile systems. Interestingly, the Telecom Commission has made a commitment to the WTO to review the domestic long-distance sector in 1999. Should this liberalisation transpire, VSNL would strive to bid for the long-distance network which could emerge as a big growth opportunity.

Among the possible threats to the company's core income is voice transmission through the Internet and call back services from the US. How is the company coping with both ?

Voice transmission through the Net is not likely to emerge as a major threat due to the lowering of collection rates worldwide and the consequent reduction in arbitrage between net telephony and regular telephony.

Callback arbitrages the differential in customer tariffs between the called and the calling countries. As long as Indian tariffs to the US are significantly higher than US tariffs to India, this differential will exist. India has declared the call-back as illegal. However, since VSNL earns a steady Rs 10 per minute irrespective of the direction of the traffic, the callback does not influence VSNL's profits. VSNL is confident that by rationalising telecom accounting rates around the world, the percentage of call-back will trend down. Besides, out of the total telephony traffic, only around 5 per cent is in the form of call-back.

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'Company responded to its various challenges'

Dear shareholders,

Your Directors are delighted that VSNL reported its best year in 1997-98. It was an eventful period and the company responded to its various challenges by posting its highest-ever turnover and profits.

(Rs. in million)

Description	1997-98	1996-97	% change
Traffic revenue (basic telephony)	58042	49962	16.17
Revenue from specialised services	2708	1768	53.17
Revenue from Intelsat/Inmarsat	501	376	33.24
Other income	3110	747	316.33
Total revenue	64361	52853	21.77
Earnings before interest, depreciation and tax	14951	9097	64.35
Interest	12	44	-72.73
Depreciation	655	576	13.72
Profit before tax	14284	8477	68.50
Tax	4310	3220	33.50
Prior year adjustment	295	210	40.48
Profit after tax	9679	5047	91.78
Net worth	41776	29747	40.44

While the company's income grew 21.77 per cent in 1997-98 over the previous year, profit after tax increased 91.78 per cent. Earnings per share improved from Rs. 63.09 to Rs. 102.08.

Your Board is pleased to report that your company has been identified by the Government as one of the 'Navratnas' having the potential to become a global giant. This is in recognition of consistent excellent performance right from its inception.

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Dividend

The Board is pleased to recommend a dividend of Rs. 4/- per share (previous year Rs. 3.50 per share). The dividend reflects the corporate growth during the 1997-98 and the confidence of the Board in the company's sustained improvement in the foreseeable future.

The directors have proposed that the profits be appropriated in the following manner :

Description	*Amount (Rs. in million)*	
Profit attributable to shareholders		9711.78
Less :		
Dividend @40 per cent on the paid-up capital of Rs. 950 million	380.00	
Tax on proposed dividend	38.00	
Transfer to General Reserve	9200.00	9618.00
Surplus carried to the balance sheet		93.78

Overview

The financial year under review was one of economic upheaval in the Far East and of modest growth in the Indian economy. All economic indicators such as the GDP and the industrial growth, the net foreign investment and the forex reserves remained reasonable. Inflation stayed well under control and a mid-year rise notwithstanding, interest rates showed signs of softening. Core sectors like cement, steel and automobiles continued to face increased installed capacity and slack demand. Many corporates faced liquidity problems. The stock markets too were generally subdued throughout the year. In the light of this, the performance of your company is creditable.

Assisting VSNL's growth in turnover and profits was the fact that DoT continued to develop India's domestic telecommunications infrastructure. The latter increased the population of access lines within the country from 14.54 million at the start of the year to around 17.80 million by the end of 1997-98. Telephone penetration, one of the lowest in the world, increased from 1.5 to 1.7 per cent.

Highlights

The 91.78 per cent increase in profit after tax was driven by a 21.63 per cent growth in the paid minutes handled by the company in 1997-98 over the previous year. Besides, an increase in the operational efficiency, a better network utilisation, stronger fiscal management, a cut in the tax rate, a five-year tax holiday on investments and the depreciation in the rupee strengthened the bottom line.

The company continued to expand its infrastructure by setting up new gateways, earth stations, additional switches and microwave links.

During the year two new gateways, Ernakulam and Jalandhar went on stream as full-fledged earth stations - International Switching Centers, thus increasing the

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international gateways from the existing four to six gateways. Your Company has also commissioned a new standard earth station at Information Technology Park Ltd. (ITPL), Bangalore for serving the software exporters at Bangalore. A new K-band earth station has also been commissioned at Greater Kailash, New Delhi.

Your Company now operates a total of seventeen earth station antennas and ten International Switches spread over six gateway sites.

During the course of the year, VSNL emerged as the second largest shareholder in ICO, the exclusive franchisee of ICO services in India and a partner in some of the world's major global satellite systems e.g. Inmarsat, Intelsat and Iridium.

Your company formed VSNL Seamless Services Pvt. Ltd., which was incorporated on 31 March, 1998, intended to market its value-added services like the Internet, e-mail, electronic data interchange and video-conferencing. The company is expected to start operations as a subsidiary of your company by the end of 1998.

VSNL expanded the range of its value-added services with the introduction of a wide range of frame relay services including British Telecom's Concert Packet Services, Global One and Cable & Wireless frame relay services and IBM Global Network. VSNL has announced its intention to offer World-Source services and also similar services by Equant and Scitor. The company can now offer Indian and multinational companies the best quality of managed data, frame relay and X.25 services.

VSNL reduced Internet access rates by 33 per cent in January, 1998. This helped in expanding the user base from around 60,000 subscribers to over 1,00,000 by April, 1998. We expect that this will help enlarge the Indian market to 180,000 users by March, 1999.

A review of projects undertaken by VSNL during 1997-98.

In 1997-98, Rs. 4471million were incurred towards capital expenditure on various projects and other investments. The progress of important projects during the year was as follows:

Projects on hand

- **Mumbai-Pune-Arvi Optical Fibre Link**

To provide diverse routing for the traffic from VSNL's switching facility at Mumbai to the earth station at Arvi, an optical fibre link between Mumbai and Arvi - connecting Pune in between - was installed. This Mumbai-Pune OFC, the second 140 Mbps link, was commissioned on 16 February 1998. With its commissioning, an additional telephone circuit capacity of 1920 circuits was made available on the optical fibre media, expandable to 7800 numbers of 64 Kbps bearers by the addition of terminal equipment.

- **FLAG**

The Fibre Optic Link Around the Globe (FLAG) is a

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Operational Review

The following is the break-up of the revenue flowing to VSNL across the different services offered by the company :

Particulars	Revenue (Rs. in Million)	Percentage
Telephone	57,527.38	94.70
Telex and Telegraph	515.06	0.85
Leased Channels	1,886.10	3.10
Internet	560.90	0.92
Others	260.40	0.43
Total Traffic Revenue	60,749.84	100.00

Telephony continued to be the backbone of the corporate revenues at VSNL. The total volume of telephone traffic transmitted over the network rose 21.63 per cent from 1385 million minutes in 1996-97 to 1685 million paid minutes in 1997-98. Telephony revenue comprised 94.7 per cent of the total traffic revenue (previous year 95.3 per cent).

However, the growth in telephony revenue was comparatively lower than the corresponding percentage growth in revenue during 1997-98 for an important reason : the accounting rates - the rates which the foreign agencies pay to the company for transporting their calls to the eventual destination within India - declined during the course of the year.

To reduce the dependence on telephony revenue, the company expanded the range and quantum of specialised services during 1997-98. The result was that the revenue from value-added services increased 53 per cent to Rs. 2708 million in 1997-98.

major international optical fibre submarine cable which will link United Kingdom with Japan and connect several countries (including India) in the three continents in between. VSNL has purchased a circuit capacity of 1530 numbers of 64 Kbits circuits in this cable. The project was commissioned on 1 December, 1997. The total cost of the project is Rs. 1229.3 million.

- **INTELSAT 's DAMA Services**

For INTELSAT's Demand Assigned Multiple Access (DAMA) Service, VSNL won the contract for installing and maintaining Network Management and Control Centre (NMCC) system. This will enable VSNL to manage and control international traffic across DAMA network in the Indian Ocean region. This NMCC has been installed and commissioned at Arvi. Besides, VSNL is also installing DAMA traffic equipment to utilise this service to establish direct telecom links with the countries which have thin traffic volumes with India.

- **LC TDMA**

VSNL upgraded TDMA equipment at Vikram earth station at Arvi during December, 1997. The testing

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Revenue from leased lines increased from Rs. 1188 million in 1996-97 to Rs. 1886 million in 1997-98. The Internet revenue increased from Rs. 177 million in 1996-97 to Rs. 561 million in 1997-98, a growth of 169 per cent.

The incoming-outgoing call ratio in 1997-98 declined to 2.94 from 2.60 in 1996-97 essentially on account of declining collection rates in Europe and USA. As a result, the number of calls coming into India continued to outstrip the calls being made out of the country during 1997-98.

The increase in the volume of traffic handled by the company - and hence, corporate profits-would not have been possible had it not been for the corporate priority in expanding its infrastructure over the years to handle an increasing telephony traffic : the number of telephone circuits increased from 14184 by end of 1997 to 15431 by the end of 1997-98.

of the satellite started on 21 April, 1998. This is a high quality, low cost service which is the upward version of earlier TDMA service of Intelsat.

Additional International Teleports

VSNL is installing Teleports at six new sites : Kanpur, Gandhinagar, Hyderabad, Goa, Chandigarh and Bhubaneswar. Of these, Kanpur and Gandhinagar will be full fledged gateways while others will be nodal points for international connectivity. The Ernakulam gateway was commissioned on 30 March, 1998 and the Jalandhar gateway on 31 March, 1998. The installation of the earth station is in progress at Bangalore while at Gandhinagar, Hyderabad and Kanpur, the infrastructure development work and civil works are in progress.

- **Satellite Access Node for ICO**

VSNL has won a contract for the location of ICO's Satellite Access Node (SAN) in India, positioning the country as a hub of the region for handling the international and domestic traffic originating and terminating from/to the ICO system. ICO is an INMARSAT affiliate company for the implementation of satellite-based global personal mobile

Accounting Rates

The rates and structure through which VSNL and DoT shared the revenue for the year 1997-98 is as follows :

For calls going out of the country, the company was remunerated at the rate of Rs. 45.98 per minute by the DoT. Whereas, for calls coming into the country, the company reimbursed the DoT at the rate of Rs. 21.34. These rates are independent of any reduction in rates announced by the DoT to the general public, enabling VSNL to insulate its bottom line from a volatile earnings scenario that would have hampered

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communication service. The equipment for this is being installed at Chhattarpur near New Delhi and the infrastructure for this is being developed at a cost of Rs. 195 million. The testing of this facility for IOT and TT&C functions will start in August 1998. The testing of this facility for traffic functions testing is expected to start in May, 1999 and commercial operation by 2000.

▪ Gateway for IRIDIUM services

VSNL is participating in the IRIDIUM mobile satellite project by becoming a part gateway owner and operator for Iridium system. VSNL will own, operate and maintain the gateway to the IRIDIUM system in India. An investment of Rs. 500 million has been made by VSNL in this project. The gateway equipment's installation has been completed and testing of the links between the Iridium gateway, Pune and Gateway Digital Switches of VSNL were completed over the last few months.

▪ Gateway for Agrani System

The Agrani system is a satellite-based regional mobile communication system that will also provide video facilities and DTH services. VSNL will operate

assets building and corporate growth.

While the current agreement with the DoT has helped protect VSNL earnings, the company considers a drop in accounting rates over the coming years as inevitable. Our assessment is that this decline will be of the order of a 10 per cent decline in accounting rates over the next two years. VSNL is negotiating a uniform settlement with all international carriers that is expected to reduce the refiling of calls from the US, balancing the incoming-outgoing ratio with the US.

The Big Picture

It would be interesting to study the way we see the telecom market evolving over the coming years. We see telephony becoming a commodity game in the coming years - with competitors willing to offer cheaper rates for delivery of traffic bypassing traditional correspondent relationships. We see the delivery of services moving from fixed line to multimedia as bandwidth on offer continues to upgrade. We also see the basic and value-added services evolving to one which are increasingly brand-led.

VSNL is well positioned to capitalise on this anticipated trend. India not only has a large domestic population, it also has one of the largest expatriate bases in the world. Geographically too, it is well located to emerge as a hub operator of choice. Besides the economic growth, the globalisation, the increased international trade and the need to communicate worldwide are all expected to accelerate in the coming years. Added to this, the privatisation of India's telecom industry and the low penetration at present are expected to enlarge in the coming years, creating considerable room for VSNL's sustained growth in the foreseeable future.

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Corporate objective and strategy

VSNL intends to emerge as a global player and a carrier's carrier. Its objective is to create India as a regional hub. It will attempt to broaden its revenue base and introduce high-margin services. It will attempt to attract and retain the best quality of personnel. The company hopes that these will deliver shareholder value.

To achieve this, the company intends to build, through a JV proposed to be formed along with duly selected partners from international telecom players, a wholly-owned, low cost, fully-integrated digital network across India, to diversify into related areas where it can add value and use its network efficiently, to invest in the platforms of the future like GPMS, Direct-to-Home and multimedia, to transform the country's culture and visual identity, and to focus on costs and margin in a bid to drive the financial engine of growth.

Joint Ventures Proposals

ICO Global Communications Mobile Satellite Services

As reported last year, Inmarsat has set up an affiliate group of Companies with a holding company at its apex styled ICO Global Communications (Holdings) Limited (ICO) to implement this project. It envisages providing mobile communications through hand-held telephone and is targeted to be operational by 1999-2000.

ICO will provide a unique, low cost global satellite phone service - as well as data, fax and paging -using hand-held pocket sized terminals. Fully compatible with terrestrial cellular/PCN, it will extend the benefits of mobile communications to everyone, from business travellers to those who could and maintain its gateway.

▪ New accommodation at Calcutta

To meet the increasing requirement of space to house equipment for new facilities as well as the staff, a new building (VSB) has been constructed at Calcutta. The Gateway Digital Telephone switch has commenced operations from this building.

▪ Intelsat Standard-A antennas at Arvi, Korattur & Halisahar

In order to meet the increased traffic requirement, it has been planned to augment the three satellite earth stations of Arvi, Halisahar and Korattur by installing an additional standard 'A' earth station at each site. The installation of these earth stations will also enable VSNL to work with the additional satellites that are under deployment by Intelsat in IOR when they reduce the spacing between satellites to two degrees. The earth stations contracts have been awarded and civil works are in progress. The commissioning of the three earth stations is expected by February, 1999. An investment of about Rs.1050 million is estimated to be made for this project.

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never have been reached through conventional communication infrastructures, anywhere in the world. VSNL has been awarded the marketing and distribution rights of ICO services in Indian market on exclusive basis and other South Asian countries on non-exclusive basis. VSNL is contemplating to form a joint venture company with duly selected intending parties to provide ICO services in India as well as in all these countries where non-exclusive rights are obtained.

During the year under review, your company subscribed to 467,445 Rights shares @US$100 per share of ICO. With these Rights shares the total investment of your company in the equity of ICO is US$150 million. India, through VSNL is now the largest shareholder of ICO (excluding Inmarsat) holding 7.56% of its equity.

Telstra Vishesh Communications Limited (TVCL)

VSNL, IL&FS, Telstra have formed a joint venture company, TVCL, with investment in its equity in the ratio of 40:20:40. The JV is primarily formed to provide V-SAT services to Indian customers. VSNL invested Rs. 24 million during the year towards further contribution to the equity of the JV over and above its existing contribution to the equity of Rs. 68 million. TVCL now intends to invest in Hybrid VSAT project providing TDMA and DAMA based services scheduled for commencement in this year.

- **SEA-ME-WE-3 optical fibre submarine cable system**

VSNL has planned to procure capacity of 9000, 64 kbps bearer capacity in this system. It will extend from Germany to Japan connecting 33 countries including India (landing points at Mumbai and Cochin). VSNL has signed a construction and maintenance agreement subject to the approval from the Indian government. The equipments have been delivered and installation is in progress. The project is expected to be completed by March, 1999 and the company has planned to invest Rs. 1848 million in this project.

- **Regional hub development**

The lack of low cost, high quality international telecommunication links for the neighbouring South Asian countries is an opportunity perceived by your company. While continuing to meet overseas communication needs of India, VSNL plans to form a separate joint venture company, or a strategic alliance to capitalise on this opportunity. The objectives of the proposed venture will include :-
a) Marketing of joint venture expertise in state of the art technologies and services management in

Investment in Regional Mobile Satellite Services

The AGRANI system is being developed by ASC Enterprises Limited predominantly for the Indian market segment and the satellite's footprint covers the entire Indian subcontinent besides the Gulf. This system is also designed to provide Video facilities and DTH services to Pan Asian and Middle East

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countries. The system will be commissioned in the year 2001 and is one of the most competitive projects. VSNL proposes to invest in the equity of ASC Enterprises Limited after obtaining necessary approvals.

Nuts and Bolts

If we do not expand the range of services being offered, if we do not make our philosophy to suit corporate and individual convenience, we may not survive in today's fiercely competitive world. Keeping this in mind, the company commissioned the following services and embarked on the following initiatives in 1997-98 :

the potential markets of Asia, Africa, Middle East, CIS states.

b) Setting up of a regional hub in India which will be for transit telecom services in international telephony from the countries in South Asia, Africa, Middle East, South East and CIS States i.e., proposed hub will handle traffic terminating or originating outside India; and

- Marketing of hubbing services internationally
- Connecting this international hub with other similar hubs in the world.

c) Using existing mutual transit products to optimise the networks of the parties targeting resultant cost savings and attracting additional international transit traffic.

d) Development of products to attract traffic currently outside the governance of the correspondent regime and development of agreements between partners and other operators for delivery of traffic on commercial terms.

e) Mutual support to the hubbing of carrier traffic (Hubbing Partners) i.e., strategically sited 'Hub and Spoke' networks to enable low cost collection/ delivery of traffic from potential markets in Asia, Africa, and Middle East to Europe and the USA

- The Fibre Optic Link around the Globe (FLAG) cable linking India to Japan and the UK was tested and commissioned in Mumbai in December, 1997. This cable link has enabled in achieving an improvement in the quality, speed and dependability of communications with countries around the world.

- The consortia undertaking the commissioning of the SEA-ME-WE3 cables has commenced work on the project. This is expected to be completed by March, 1999.

- Installation of new gateway earth stations at Kanpur and Hyderabad is under progress and will be completed by November, 1998 and March, 1999 respectively. Further data gateways and microwave links are also planned in a range of locations around the country.

- The installation of a standard B earth station at the Information Technology Park at Bangalore has been completed.

- Work on the setting up of the ICO Satellite Access Node (SAN) is in progress and

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market.
The planned joint venture partners would be recognised local transit carriers and will make available quicker access to established technologies and management skills, which they have proved in establishing and managing large networks.

New Projects

Establishment of ATM/Super Highway gateway nodes.
The global telecom industry is witnessing vast changes in services provided to customers. Advanced services like ISDN, frame relay inter-working, internet, video conferencing, LAN emulation, cell relay services, managed data networking, information services, intelligent networks and integrated transmission and switching networks using Asynchronous Mode Technology (ATM) are being used increasingly worldwide. Telecommunications service providers are being asked to broadband their networks with user-configurable services as well as provide bandwidth on demand. To provide services at par with the prevailing global standards, VSNL plans to establish ATM / Superhighway gateway nodes at its gateways

civil work on the SAN has been completed. The SAN in India is the only one having all three functions (Traffic testing, Telemetry and Command - TT&C) and IOT (in-orbit testing) and has been scheduled for completion by the end of 1999.

- The Iridium gateway at Pune has been tested and will be ready for commissioning by September, 1998.

- VSNL has commenced the installation of additional digital microwave links between satellite earth stations and its gateways at a cost of $14.8 million to cater to the increased traffic requirements via satellite and for restoration of traffic during cable failures. This is expected to be completed by September, 1998.

Human Resources

With the advent of liberalisation and globalisation, Indian companies in general and VSNL in particular is facing a completely new environment. In the changing scenario, the people factor has begun to emerge as a basis of sustainable competitive advantage gaining pre-eminence over technology etc. In today's competitive business environment, Companies rightly view skilled employees as a precious and scarce resource. Your Company is no exception. At VSNL, there has been a continuous endeavour to look outside for executive talent to meet the growing needs of the Company. With the phenomenal growth in its volume of business coupled with the expansion and opening of new gateways, it has become imperative to scout for outside talent to meet the growing demands of the Company. It has been our policy to attract high calibre staff in the highly competitive telecom industry. Your Company has developed a successful retention strategy to keep key members of staff by

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providing them new challenges and career opportunities. Your Company aims to establish a system of remuneration and reward with a view to attract and retain key staff in order to maintain our competitive edge. Your Company continues to carry out recruitment where it is necessary in technical areas as well as in non-technical areas like HR, Finance, Systems, Commercial etc. with a view to sustain the growth.

The total number of employees as on 31 March, 1998 were 2861 as against 2873 at the end of the last year comprising of 947 executives (929 last year) and 1914 non executives (1944 last year). The total number of women employees as on 31 March, 1998 were 342 as against 322 at the end of the last year comprising of 96 executives (85 last year) and 246 non executives (237 last year).

Your Company recognises the importance of periodical training for employees. In the year 1997-98, a total of 240 employees were trained in India and abroad. Your Company completed 7 training courses at its Telecom Training and Development Center (TTDC), Pune. The total number of participants trained at TTDC was 128 out of which 8 were foreign delegates under CCCA bilateral programme. 16 officers of the Company were trained abroad under the CCCA programme and 100 officers were trained abroad in other various subjects related to operations. Programmes on O&M of Earth station, General Telecommunications Accounting, and a course on VAS Data Communication & VAS Marketing were arranged in branches at Pune, Chennai, Arvi, VSB and Mumbai as a part of the bilateral programme under CCCA. The participants included 9 foreign delegates.

Reservation Policy

Your Company continues to follow the Government policy

in the plan period. The various systems that are being developed are reviewed and the specifications for VSNL ATM switches are under preparations. The total investment estimated for this project is Rs. 2500 million.

- **Metro switches**

VSNL plans to install digital ATM switches in the four major metro cities of India. These switches will have state-of-the art facilities like wireless in local loop, ISDN and bandwidth on demand, based on frame relay and ATM broadband switches. The project cost for all the switches is estimated to be around Rs. 4 billion and the project is expected to be completed by 2003.

- **Integrated Network Management System**

For better reliability and the availability of international telecommunication services, VSNL will install an Integrated Network Management System. It is planned to achieve a fault-resilient network by integrating the transmission and switching facilities through an INMS. Failure of any of the national or international facilities would be catered to by appropriate measures of restructuring and self-healing capabilities for uninterrupted routing of

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regarding upliftment of Scheduled Castes, Scheduled Tribes and Other Backward Classes. As on 31 March, 1998, the total strength of employees belonging to the Scheduled Caste was 635 (previous year 640), Scheduled Tribe employees was 174 (previous year 179) and Other Backward Classes employees was 120 (previous year 87). Recruitment to fill up vacancies earmarked for other backward classes is in progress.

Industrial Relations

Your company has a sound track record of healthy industrial relations. Workplace peace and tranquility have immensely contributed towards the epoch making success of the organisation over a period of time.

The issues pertaining to the employees are resolved through joint consultation and bi-lateral interaction without allowing the situation to adversely affect the state of industrial relations. This could be achieved because of mutual trust and confidence.

The revision of compensation and benefits to the employees are due from 1 January, 1997. For the executives, the Government has constituted a committee and revision shall be as per the decision of Government based on the recommendations of the Committee. The revision for non-executives shall be after the due process of collective bargaining with employees federation for which a charter of demands has already been submitted.

Official Language

Directives as per Official Language policy of the Government of India are scrupulously implemented

international traffic. The total investment in this project is estimated to be Rs. 500 million and is expected to be completed by 1999.

- **Value Added Services**

VSNL will augment the existing message handling services like electronic mail, electronic commerce and EDI to cater to the anticipated growth. VSNL will also expand the managed data network services and introduce V-SAT-based services for customers. About Rs. 2 billion will be invested for these services in the ninth plan.

- **Video Facilities**

The broadcast service is expanding with a number of broadcast service providers entering the field. Intelsat and other major satellite system owners are planning to introduce direct-to-home TV services. The Indian government plans to introduce a broadcast bill to regularise the broadcast market and DTH services.

This will provide VSNL an opportunity to offer video uplinking facilities . In future, video broadcasting is expected be a lucrative market in the Indian Ocean region. VSNL will provide ground facilities and make

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and monitored through periodical returns/reports and personal visits. Incentive schemes have been introduced to encourage employees to use Hindi in their day-to-day official work, increasingly. All possible efforts are made to achieve the target fixed in the annual programme drawn-up by the Department of Official Language, Ministry of Home Affairs in this regard.

Statutory Information and Disclosures

There was no employee who was in receipt of remuneration in excess of limits described under the provisions of Section 217 (2A) of the Companies Act, 1956, read with Companies (Particulars of the Employees) Amendment Rules, 1988, during the year.

Particulars with respect to Research and Development, Technology Absorption, etc., are submitted as Annexure 1 and form part of this Report.

The Board of Directors

The term of appointment of Shri B.K. Syngal, Chairman and Managing Director of the company was extended by two years from 25 June, 1996 to 30 June, 1998. Accordingly, his term of appointment came to an end on 30 June, 1998 (AN) and Shri Amitabh Kumar, Director (Operations) assumed the charge as Officiating Chairman and Managing Director of your company. Your Directors place on record their appreciation for the services rendered by Shri Syngal who transformed VSNL from being an overseas switched voice company to the internationally recognised telecommunications organisation that it is today. Under his leadership, VSNL has matured into an internationally known organisation in the field of telecommunications.

Smt. S.A. Tirmizi retires at this Annual General Meeting and being eligible offers herself for re-appointment.

the investment for providing this service. The total investment of around Rs. 2950 million will be made in this area. Presently, an earth station for TV uplinking has been planned at Dehra Dun. The Korattur earth station is already operational and providing uplinking for 6 TV channels. The Dehra Dun earth station is expected to be commissioned by March 1999.

- **Global multimedia satellite system**

To provide multimedia services to customers, VSNL will participate in the ventures providing quality services for multimedia applications with the help of emerging global multimedia satellite systems. The total investment is expected to be about Rs. 1900 million.

- **Digital Satellite News Gathering terminals**

In order to provide instant video coverage at important venues, VSNL has invested Rs. 580 lakhs

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to purchase digital satellite news gathering portable terminals. Through these terminals, VSNL is capable of transmitting digital video programmes to various destinations through satellites in the Indian ocean region. Using these portable terminals, the opinion poll results on the elections were telecast by Asianet and BiTV to Singapore.

- **H3/F1 Earth Stations for IBS**

Intelsat has enhanced the availability of its services by making available through smaller size (2.4 m) dishes. VSNL has planned to open a number of teleports using the H3/F1 earth stations. This move is aimed at providing leased line services to remote places all around the world. This will help VSNL in providing IPLCs to groups of customers located at a remote location. To meet the urgent demand of software exporters at various Software Technology Parks, VSNL is establishing such H3/F1 Earth Stations at Goa, Bhubaneswar, Chandigarh and Indore.

Acknowledgment

The Directors take this opportunity to express their appreciation for the hard work and dedication of each one of the employees of the Company. The awareness campaign for good customer service, innovation, efficiency and reliability continues to receive considered support, co-operation and contributions from the employees in all quarters.

The Directors are thankful for the support received from various Ministries and Departments of the Government of India in general and from the Department of Telecommunications, Mahanagar Telephone Nigam Limited as well as the Governments of the different states where the Company's offices and stations are situated, in particular. The Directors are also grateful to the Company's Bankers, its valued customers, shareholders, suppliers and foreign telecom administrations for their continued association and support.

On behalf of the Board of Directors

Amitabh Kumar
Officiating Chairman
and Managing Director
Date : 18 July, 1998

Registered Office
Videsh Sanchar Bhavan
Mahatma Gandhi Road,
Mumbai - 400 001.

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Five Years at a Glance

Description	1993-94	1994-95	1995-96	1996-97	1997-98	% change over previous year
International Telecommunications Traffic						
Telephone Paid Minutes (million)	742.82	942.00	1147.56	1384.9	**1684.51**	21.63
Transit Telephone Paid Minutes (million)	1.39	4.64	6.70	5.24	**7.95**	51.72
Telex paid minutes (million)	30.99	24.19	20.40	17.35	**14.02**	(19.19)
Telegraph words (million)	28.84	24.47	21.14	18.95	**16.32**	(13.88)
Photo Telegraph in Sq. cms. (million)	0.44	0.28	0.34	NIL	**NIL**	NIL
Television Traffic (in minutes)	62159	99811	116683	143050	**185930**	29.98
Bureaufax (pages)	133143	104233	80356	55700	**48250**	(13.38)
Data transmission (GPSS)						
Minutes (in 000)	4868	8673	7725	7982	**8920**	11.75
Segments (million)	215.0	439.33	560.86	521	**613**	17.66

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Inmarsat Traffic

Telephone (000 mts)	1808.49	2249.82	2597.28	3307	**2660**	(19.56)
Telex (000 mts)	770.04	929.53	982.52	878	**807**	(8.09)
Internet Access Customers **	NIL	NIL	4,151	28,042	**90,042**	221.10

Growth of International Circuits

Telephone Circuits	8520	11525	12873	14184	**15431**	8.79
Telex Circuits	1039	1064	1128	1081	**1012**	(6.38)
Telegraph Circuits	39	38	38	35	**35**	0.00
Leased Telegraph Circuits	120	114	102	87	**68**	(21.84)
Leased Voice/Data Circuits#	81	72	54	44	**35**	(20.45)
Leased High Speed Data Circuits	85	161	245	402	**603**	50.00
Satellite Circuits	6937	7702	8573	9220	**9266**	0.50
Cable Circuits (IOCOM, Gulf & Sea-Me-We-2 @)	1583	3781	4300	4964	**6165**	24.19

including IBS circuits
@ commissioned on 1-6-1994
** Commissioned on 15 August 1995

International Automatic Services

ISD Telephone Service to countries	237	236	236	236	**236**	0.00
IXSD Telex Service to countries	239	238	238	238	**237**	(0.42)
Bureaufax Service to countries	31	31	31	32	**32**	0.00

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Auditors' Report

To the Members of
Videsh Sanchar Nigam Limited

We have audited the attached Balance Sheet of VIDESH SANCHAR NIGAM LIMITED as at 31st March, 1998 and also the Profit and Loss Account of the company for the year ended on that date, annexed thereto, in which are incorporated the accounts of the branches audited by the Branch Auditors and report that :

1. We have obtained all the information and explanations, which to the best of our knowledge and belief, were necessary for the purposes of our audit.

2. In our opinion, proper books of account, as required by law, have been kept by the Company so far as appears from our examination of the books and proper returns adequate, for the purposes of our audit have been received from branches not visited by us.

3. The reports of the Branch auditors on the Branches audited by them have been forwarded to us and have been considered by us in preparing this report.

4. The Balance Sheet and Profit and Loss Account dealt with by this report are in agreement with the books of account and returns.

5. Attention is invited to note no. 6 of Schedule 22 regarding method of accounting interest on short term deposits with banks abroad and recording of foreign currency balances with banks abroad at original rate of exchange instead of closing rate of exchange for reasons explained in the note.

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6. Attention is further invited to the following notes in Schedule 22:

a) Note No. 3(a) and 3(b) regarding debit/credit adjustments in Government of India current Account being subject to approval of the Government.

b) Note No. 4(a) regarding advances to and recoveries from employees, inter branch adjustments and investments in communication satellites being subject to reconciliation/adjustments, if any.

c) Note No. 4(b) regarding balances in respect of sundry debtors and creditors being subject to confirmations/adjustments, if any.

SUBJECT TO THE FOREGOING stated in paragraph 6, in our opinion and to the best of our information and according to the explanations given to us, the said accounts read together with other notes of Schedule 22, give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view:-

a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31st March, 1998

and

b) in the case of the Profit and Loss Account of the profit of the Company for the year ended on that date.

As required by Manufacturing and other Companies (Auditor's Report) Order, 1988 issued by the Central Government in terms of Section 227(4A) of the Companies Act, 1956 and on the basis of such checks of the books and records of the Company as we considered appropriate and as per information and explanations given to us, during the course of audit, we report as under :

1. The Company has generally maintained proper records showing full particulars including quantitative details and situation of fixed assets except in the case of the Head Office wherein the record of Fixed Assets are in the form of Receipts Register, on year to year basis and does not give complete particulars of the assets acquired from time to time and quantitative details thereof on a cumulative basis and the quantities of each class of assets held at any time are not readily ascertainable. Further in respect of assets taken over from Overseas Communications Service (OCS), the records are in the form of history sheets maintained by the erstwhile department. Physical verification was conducted by the management during the year and as explained to us, no material discrepancies were noticed by the management on such verification.

2. None of the fixed assets has been revalued during the year.

3. Physical verification of stocks of stores and spare parts except those lying at Northern Region and Arvi branch has been conducted by the management during the year. In our opinion, the frequency of verification is reasonable.

4. In our opinion, the procedures of physical verification of stock of stores and spare parts followed by the Management are reasonable and adequate, in relation to the size of the Company and the nature of its business.

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5. The discrepancies noticed on physical verification of stock of stores and spare parts as compared to the book records were not material.

6. On the basis of our examination of stock records, we are of the opinion that the valuation of stores and spare parts is fair and proper in accordance with the normally accepted accounting principles and is on the same basis as in the preceding year.

7. The company has not taken any Loans from Companies, firms or other parties listed in the Register maintained under Section 301 of the Companies Act, 1956. There are no companies under the same management as this Company within the meaning of Section 370(1-B) of the Companies Act, 1956.

8. The company has not granted any loans, secured or unsecured to Companies, firms or other parties listed in the Register maintained under Section 301 of the Companies Act, 1956. There are no companies under the same management as this Company with the meaning of Section 370(1-B) of the Companies Act, 1956.

9. Loans and Advances in the nature of loans have been given by the Company to its employees and other parties who are generally repaying the principal amounts as stipulated together with interest, wherever applicable except that in respect of a loan of Rs. 25 lakhs given to VSNL Co-operative Credit Society Limited in an earlier year, there have been no stipulations as to repayment of principal amount. Attention is invited to Note No. 4(a) of Schedule 22 regarding advances to and recoveries from employees being subject to reconciliation/adjustments, if any.

10. In our opinion and according to the information and explanations given to us and on the basis of selective checks carried out during the course of audit, the internal control procedures for purchase of stores and components, plant and machinery, equipments and other assets and for the sale of services need to be strengthened so as to be adequate and commensurate with the size of the Company and nature of its business.

11. There were no transactions of purchase of goods and materials and sale of goods, materials and services aggregating during the year to Rs. 50,000/- or more in respect of each party made in pursuance of contracts or arrangements entered in the register maintained under section 301 of the Companies Act, 1956.

12. As explained to us, the company has a regular procedure for determining unserviceable or damaged stores. The loss, if any, arising on the items so determined is accounted for in the year of sale of such stores.

13. The company has not accepted any deposits from the public during the year.

14. As explained to us, the operations of the Company do not generate any by-product or significant realisable scrap.

15. The internal audit of the Company carried out by firms of Chartered Accountants is commensurate with the size of the Company and nature of its business.

16. The Central Government has not prescribed maintenance of cost records under Section 209(1) (d) of the Companies Act, 1956 for the year.

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17. According to the records of the Company, it has generally been regular in depositing provident fund dues with the appropriate authorities. The company has sought exemption from the provisions of the Employees' State Insurance Scheme which is awaited.

18. According to the information and explanations given to us, no undisputed amounts payable in the respect of Income-tax, Wealth-tax, Sales-tax, Customs duty and Excise duty were outstanding as at 31st March 1998 for the period of more than six months from the date they became payable except for an amount of Rs. 3.50 lakhs in respect of Wealth-tax of earlier years.

19. According to the information and explanations given to us, no personal expenses of employees or Directors have been charged to Revenue account, other than those payable under contractual obligations or in accordance with generally accepted business practice.

20. The Company is not a Sick Industrial Company within the meaning of Section 3(1)(o) of the Sick Industrial Companies (Special Provisions) Act, 1985.

In respect of service activities of the Company:

A] There is a reasonable system of recording receipts and issues and consumption of stores commensurate with the size of the Company and nature of its business.

B] As informed to us and considering the nature of activities of the Company, the question of allocation of materials and man-hours to relative jobs does not arise.

C] In our opinion and according to information and explanations given to us there is a reasonable system of authorisation at proper levels with necessary controls on the issue of stores. Attention is invited to clause 10 above. There is no system of allocation of stores and labour to jobs as it does not arise.

For C.C.Chokshi & Co.
Chartered Accountants

R. Laxminarayan
Partner

For Alladi Krishnan & Kumar
Chartered Accountants

Narayan Krishnan
Partner

Mumbai
13 July, 1998

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Balance Sheet As at 31 March, 1998

(Rs. in '000)

Particulars	Schedule	As at 31 March '98	As at 31 March '97
SOURCES OF FUNDS			
1 SHAREHOLDERS' FUNDS			
(a) Share Capital	1	950,000	921,650
(b) Reserves and Surplus	2	40,853,093	28,857,179
2 LOAN FUNDS			
Secured Loans	3	1,562,311	2,502,770
Total		43,365,404	32,281,599
APPLICATION OF FUNDS			
1 FIXED ASSETS	4		
(a) Gross Block		15,215,687	12,345,217
(b) Less : Depreciation		4,631,535	3,960,644
(c) Net Block		10,584,152	8,384,573
(d) Capital Work-in-Progress		1,660,341	1,309,786
(e) Investments in Communication Satellites		2,250,204	1,617,860
		14,494,697	11,312,219
2 INVESTMENTS	5	3,735,542	3,137,729
3 CURRENT ASSETS, LOANS & ADVANCES			
(a) Inventories	6	10,490	11,657
(b) Sundry Debtors	7	16,816,712	15,298,522
(c) Cash and Bank Balances	8	25,137,625	14,593,591
(d) Other Current Assets	9	206,265	58,516
(e) Loans and Advances	10	6,406,309	7,540,976
Total (A)		48,577,401	37,503,262
Less : Current Liabilities & Provisions			
(a) Current Liabilities	11	18,042,870	13,072,836
(b) Provisions	12	5,399,366	6,598,775
Total (B)		23,442,236	19,671,611
Net Current Assets (A-B)		25,135,165	17,831,651
Total		43,365,404	32,281,599
Notes on Accounts	22		

As per our Report of even date attached

For C.C.Chokshi & Co.
Chartered Accountants
R. Laxminarayan
Partner

For Alladi Krishnan & Kumar
Chartered Accountants
Narayan Krishnan
Partner

For and on Behalf of Board of Directors
VIDESH SANCHAR NIGAM LIMITED
Amitabh Kumar, *Officiating Chairman & Managing Director*
S. A. Tirmizi, *Director*
Satish Ranade, *Company Secretary*
V. J. Mehmi, *Chief General Manager (Finance & Accounts)*

Mumbai
13 July, 1998

Mumbai
13 July, 1998

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Profit & Loss Account For the year ended 31 March, 1998

(Rs. in '000)

Particulars	Schedule	Year ended 31 March '98	Year ended 31 March '97
INCOME			
Traffic Revenue	13	60,749,841	51,712,963
Revenue from Intelsat/Inmarsat	14	501,283	375,590
Other Income	15	3,110,208	747,243
Total (A)		64,361,332	52,835,796
EXPENDITURE			
Staff Cost	16	804,181	566,468
Network Cost	17	47,121,595	42,413,019
Operating and Other Expenses	18	417,675	470,372
Administrative Expenses	19	1,066,552	287,967
Interest	20	12,310	44,267
Depreciation		659,140	581,183
Less: Transferred from Capital Reserve		(4,260)	(4,854)
Total (B)		50,077,193	44,358,422
Profit before Taxes (A-B)		14,284,139	8,477,374
Prior year Adjustments	21	(294,854)	(214,689)
Provision for Taxation [including Rs. 125,000/- (96-97: Rs. 100,000/-) for wealth tax]		(4,310,125)	(3,220,100)
Excess Tax provision of earlier years written back		0	4,853
Profit after tax		9,679,160	5,047,438
Surplus brought forward from previous year		32,619	193,181
Amount available for Appropriation		9,711,779	5,240,619
APPROPRIATIONS			
Proposed Dividend		380,000	280,000
Tax on Proposed Dividend		38,000	28,000
Transferred to General Reserve		9,200,000	4,900,000
Surplus carried to Balance Sheet		93,779	32,619
		9,711,779	5,240,619
Notes on Accounts	22		

As per our Report of even date attached

For C.C.Chokshi & Co.
Chartered Accountants
R. Laxminarayan
Partner

For Alladi Krishnan & Kumar
Chartered Accountants
Narayan Krishnan
Partner

For and on Behalf of Board of Directors
VIDESH SANCHAR NIGAM LIMITED
Amitabh Kumar, *Officiating Chairman & Managing Director*
S. A. Tirmizi, *Director*
Satish Ranade, *Company Secretary*
V. J. Mehmi, *Chief General Manager (Finance & Accounts)*

Mumbai
13 July, 1998

Mumbai
13 July, 1998

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Schedules Forming part of the **Balance Sheet**

(Rs. in '000)

	As at 31 March '98	As at 31 March '97
SCHEDULE - 1		
SHARE CAPITAL		
AUTHORISED		
100,000,000 equity shares of Rs.10/-each	1,000,000	1,000,000
ISSUED, SUBSCRIBED AND PAID UP		
95,000,000 (1996-97: 92,165,000) equity shares of Rs. 10/-each, fully paid up	950,000	921,650
NOTES:		
OF THE ABOVE		
1) 60,000,000 shares are allotted as fully paid up pursuant to a contract without payment being received in cash		
2) 20,000,000 shares are allotted as fully paid up by way of bonus shares by capitalisation of general reserve		
3) 15,000,000 (1996-97 : 12,165,000) shares are allotted as fully paid up by way of Euro issue represented by global depository receipts (GDR).		
Total	950,000	921,650
SCHEDULE - 2		
RESERVES AND SURPLUS		
1. CAPITAL RESERVE :		
Balance as per last Balance Sheet	31,648	34,069
Additions during the year	117	2,433
	31,765	36,502
Less: Transfered to Profit and Loss Account	(4,260)	(4,854)
	27,505	31,648

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(Rs. in '000)

	As at 31 March '98	As at 31 March '97
SCHEDULE - 2 (CONT.)		
RESERVES AND SURPLUS		
2. SHARE PREMIUM ACCOUNT		
Balance as per last Balance Sheet	11,742,912	0
Add : Received during the year on issue of euro equity shares	2,822,186	12,043,350
Less : Expenses on Euro equity issue adjusted (see note 2 of Schedule 22)	83,289	300,438
	14,481,809	11,742,912
3. GENERAL RESERVE		
Balance as per last Balance Sheet	17,050,000	12,150,000
Add : Transferred from Profit and Loss Account	9,200,000	4,900,000
	26,250,000	17,050,000
4. SURPLUS IN PROFIT AND LOSS ACCOUNT	93,779	32,619
Total	40,853,093	28,857,179

SCHEDULE - 3

SECURED LOANS		
Loans and Advances from Banks		
Cash Credit Accounts (secured by way of hypothecation of book debts)	1,562,311	2,502,770
Total	1,562,311	2,502,770

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SCHEDULE - 4

FIXED ASSETS

(Rs. '000)

PARTICULARS	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	Cost as on 01/04/97	Additions during the year	Deductions/ Adjustments during the year	Cost as on 31/3/98	Accumulated as on 01/04/97	For the year	Deductions/ Adjustments during the year	Accumulated as on 31/3/98	As on 31/3/98	As on 31/3/97
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Land	124,668	3,685	0	128,353	926	430	0	1,356	126,997	123,742
Buildings	813,964	145,976	768	959,172	57,084	16,940	4	74,020	885,152	756,880
Plant & Machinery	11,122,154	2,632,046	18,912	13,735,288	3,797,634	617,669	3,279	4,412,024	9,323,264	7,324,520
Furniture & Fixtures	67,433	12,834	10	80,257	19,863	7,017	10	26,870	53,387	47,570
Office Equipments	82,063	10,914	0	92,977	23,610	5,456	13	29,053	63,924	58,453
Computers	125,697	84,065	992	208,770	55,790	26,102	80	81,812	126,958	69,907
Motor Vehicles	9,238	1,632	0	10,870	5,737	663	0	6,400	4,470	3,501
Total	12,345,217	2,891,152	20,682	15,215,687	3,960,644	674,277	3,386	4,631,535	10,584,152	8,384,573
Previous year	10,565,034	1,785,724	5,541	12,345,217	3,333,496	633,035	5,887	3,960,644	8,384,573	
Capital Work in Progress									1,660,341	1,309,786
Investment in communication satellites (at valuation based on share of net assets)										
International telecommunication satellite organisation									1,746,990	1,211,873
International maritime satellite organisation									503,214	405,987
								Total	2,250,204	1,617,860

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Notes :

1 Land includes Rs.13,365 for Leasehold Land.

2 Land includes Rs. 1,069 for Leasehold Land for which conveyance is not registered and the land has not been transferred in the name of the company.

3 Lease deed for Leasehold Land at Srinagar is not traceable.

4 Freehold Land includes Rs. 12,079 against which agreement has not been executed.

5 Building includes Rs. 7,937 being cost of flats in co-operative societies under formation.

6 Building includes Rs. 327,576 for flats at Mumbai and Rs. 10,774 for flats at Jalandhar against which agreements have not been registered.

7 Building includes Rs.40,735 for office premises at Delhi given on lease.

8 Building includes Rs. 61,102 in respect of office premises at Delhi, based on the provisional statement of accounts from Telecommunication Consultants India Limited (TCIL).

9 Additions to Plant & Machinery include Rs. 2,621 on account of increase in liabilities consequent to fluctuations in exchange rate.

10 Plant & Machinery includes Rs.13,277 for optic fibre cable installed by DoT between Lokmanya Videsh Sanchar Bhavan and Videsh Sanchar Bhavan, Mumbai taken on estimated basis as final bills from DoT and MTNL have not been received.

11 Plant & Machinery includes Rs. 14,834 for assets given on lease.

12 Plant & Machinery includes asset retired from active use but held for disposal at expected realisable value of Rs. 2,762.

13 Depreciation for the year includes Rs. 4,260 being depreciation on gifted assets.

14 Capital Work-in-Progress includes :

(i) Rs. 119,386 on Account of Building. (PY : Rs.193,191)

(ii) Rs. 1,505,927 on Account of Plant & Machinery. (PY : Rs.590,788)

(iii) Rs. 35,028 on Account of advance against capital expenditure. (PY : Rs.525,807)

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	As at 31 March '98	As at 31 March '97
SCHEDULE - 5		
INVESTMENTS (NON-TRADE, UNQUOTED)		
1) LONG TERM : AT COST		
(a) ICO Global Communications (Holdings) Limited,		
i) 9384 ordinary shares of us $ 0.01 each at a premium of US$ 99.99 per share fully paid up	29,456	29,456
ii) 1,023,171 Ordinary shares of US$ 100.00 each having face value of US$ 0.01 & premium of US $ 99.99 per share fully paid. (1996-97: US$ 85.00)	3,633,119	3,035,237
iii) 467,445 Ordinary shares of US$ 100.00 each having face value of US$ 0.01 & premium of US $ 99.99 against which US$ 0.01 is paid. (1996-97 : nil)	1,795,687	0
	5,458,262	3,064,693
Less : Unpaid Calls	1,845,756	0
	3,612,506	3,064,693
(b) Telstra Vishesh Communications Limited 6,800,000 equity shares of Rs.10/- each fully paid up.	68,000	68,000
2) CURRENT : AT LOWER OF COST OR REALISABLE VALUE		
396,000 Units in unit scheme 1964 of Unit Trust of India of Rs. 10/- each fully paid up (repurchase value Rs. 5,860,800/- 1996-97 Rs. 5,841,000)	5,036	5,036
5,000,000 (1996-97:nil) units in UTI's money market mutual fund of Rs. 10/- each fully paid. (repurchase value Rs. 54,769,000/- 1996-97 : nil)	50,000	0
Total	3,735,542	3,137,729
SCHEDULE - 6		
INVENTORIES STORES & SPARES AT COST (as taken, valued and certified by the management)	10,490	11,657

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	As at 31 March '98	As at 31 March '97
SCHEDULE - 7		
SUNDRY DEBTORS (UNSECURED)		
DEBTS OUTSTANDING FOR A PERIOD EXCEEDING SIX MONTHS		
Considered Good	6,487,194	4,955,647
Considered Doubtful	788,722	104,940
	7,275,916	5,060,587
Less: Provision for Doubtful Debts	788,722	104,940
	6,487,194	4,955,647
Other Debts Considered Good	10,329,518	10,342,875
Total	16,816,712	15,298,522
SCHEDULE - 8		
CASH AND BANK BALANCES		
Cash on hand	1,341	1,620
Remittance in Transit	2	424
Balances with Scheduled Banks		
In Current Accounts *	13,824,989	2,681,663
In Savings Accounts	3	1
in Deposits Accounts **	3,881,152	11,909,883
	17,706,144	14,591,547
Balances with Non-Scheduled Banks :		
In Deposits Accounts ***		
1. Credit Lyonnais (maximum balance during the year Rs. 5,38,650,000/- 1996-97 : nil)	179,550	0
2. Societe Generale, Singapore (maximum balance during the year Rs.1,042,467,300/- 1996-97 : nil)	538,650	0
3. Barclays Bank, Singapore (maximum balance during the year Rs.1,077,300,000/- 1996-97 : nil)	1,077,300	0
4. Deutsche Bank, Singapore (maximum balance during the year Rs.1,170,666,000/- 1996-97 : nil)	1,004,403	0

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	As at 31 March '98	As at 31 March '97
SCHEDULE - 8 (CONT.)		
Balances with Non-Scheduled Banks : In Deposits Accounts ***		
5. ABN-AMRO, Singapore (maximum balance during the year Rs.1,179,643,500/- 1996-97 : nil)	1,072,991	0
6. Bank of Nova Scotia, Singapore (maximum balance during the year Rs.1,075,145,400/- 1996-97 : nil)	1,075,145	0
7. Chase Manhattan, Hongkong (maximum balance during the year Rs.1,077,300,000/- 1996-97 : nil)	897,750	0
8. Toronto Dominion, Singapore (maximum balance during the year Rs.1,055,035,800/- 1996-97 : nil)	1,055,036	0
9. Dresdner Bank, London (maximum balance during the year Rs.2,693,250,000/- 1996-97 : nil)	529,313	0
	7,430,138	0

* Includes an Amount of Rs. 1,014,596/- (96-97: nil);

** Includes an Amount of Rs. 3,881,152,800/- (96-97: Rs 11,909,877,516/-) ; and

*** Includes an amount of Rs. 7,430,138,100 - with non-scheduled banks (96-97 : nil) representing unutilised monies raised by way of Euro equity issue.

Total	25,137,625	14,593,591

SCHEDULE - 9

OTHER CURRENT ASSETS

Interest Receivable	171,322	24,333
Rent Receivable	34,313	33,660
Other Receivables	630	523
Total	206,265	58,516

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	As at 31 March '98	As at 31 March '97
SCHEDULE - 10		
LOANS AND ADVANCES		
(UNSECURED - CONSIDERED GOOD)		
Loan to VSNL Co-op Credit Society Limited	2,500	2,500
Advances recoverable in cash or in kind or for value to be received	571,052	435,711
Advance payment of Tax	5,808,757	7,102,765
Share application money pending allotment	24,000	0
Total	6,406,309	7,540,976
SCHEDULE - 11		
CURRENT LIABILITIES		
Traffic Creditors	13,604,332	10,358,107
Sundry Creditors	2,678,456	1,008,801
Income received in advance	911,122	421,416
Government of India Current Account	63,915	82,320
Other Liabilities	785,045	1,202,192
Total	18,042,870	13,072,836
SCHEDULE - 12		
PROVISIONS		
Provision for Taxation	4,892,601	6,231,630
Provision for Leave Encashment	47,222	36,981
Provision for Pension	25,893	15,233
Provision for Gratuity	15,650	6,931
Proposed Dividend	380,000	280,000
Provision for Tax on Proposed Dividend	38,000	28,000
Total	5,399,366	6,598,775

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Schedules Forming part of the **Profit & Loss Account**

(Rs. in '000)

	Year ended 31 March '98	Year ended 31 March '97
SCHEDULE - 13		
TRAFFIC REVENUE		
Telephone •	57,527,389	49,317,839
Telex	452,569	575,759
Telegraph	62,494	68,414
Leased Channel	1,886,100	1,171,193
Television	109,362	105,878
Gateway Packet Switching System	81,436	81,367
Gateway Electronic Mail Service	134,940	62,596
Global Network Service	55,414	22,811
Gateway Internet Access System	560,902	177,403
Other Traffic Revenue	43,860	10,624
Variance in estimates (Net)	(164,625)	119,079
Total	60,749,841	51,712,963
SCHEDULE - 14		
REVENUE FROM INTELSAT/INMARSAT		
Intelsat	425,529	319,277
Inmarsat	75,754	56,313
Total	501,283	375,590
SCHEDULE - 15		
OTHER INCOME		
Income from units of UTI - Gross (TDS Rs. 156,600, 1996-97 Rs. 165,600)	792	720
Interest on bank deposits - Gross (TDS Rs. 11,962,678, 1996-97 Rs. 2,169,192)	434,908	147,161
Interest on other deposits and advances - Gross (TDS Rs. 149,781, 1996-97 Rs. 1,373,754)	136,246	22,677
Profit on sale of Fixed Assets (net)	476	73
Miscellaneous Income	60,862	35,695
Rent	7,219	4,062
Provision for Doubtful Debts written back	191	0
Other provisions written back (net)	3,251	7,089
Profit on exchange fluctuation (net)	2,466,263	529,766
Total	3,110,208	747,243

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(Rs. in '000)

	Year ended 31 March '98	Year ended 31 March '97
SCHEDULE - 16		
STAFF COST		
Salaries & Bonus	559,590	412,465
Contribution to Provident and Other Funds	55,731	47,744
Staff Welfare Expenses	188,860	106,259
Total	804,181	566,468
SCHEDULE - 17		
NETWORK COST		
Rent of Satellite Channels	1,400,521	1,154,971
Rent of Landlines	733,979	850,597
Administration Lease Charges	65,328	66,586
License fee to Deptt. of Telecommunications	3,701,875	4,146,000
Charges for use of Transmission Facilities :		
Telephone	40,535,417	35,520,567
Telex	312,615	387,763
Telegraph	53,904	68,707
Gateway Packet Switching System	86,067	78,489
Easynet	372	464
Television	13,464	33,290
Internet	185,606	87,717
Leased Channel	8,552	11,499
Others	23,895	6,369
Total	47,121,595	42,413,019
SCHEDULE - 18		
OPERATING AND OTHER EXPENSES		
Consumption of stores	12,248	25,765
Light & Power	122,738	100,257
Repairs and Maintenance:		
Buildings	29,664	25,442
Plant & Machinery	229,146	295,054
Others	23,879	23,854
Total	417,675	470,372

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	Year ended 31 March '98	Year ended 31 March '97
SCHEDULE - 19		
ADMINISTRATIVE EXPENSES		
Rent	13,040	11,461
Rates & Taxes	24,474	14,972
Travelling Expenses	65,326	47,319
Postage	6,589	3,381
Telex and Telephone	45,967	30,980
Printing and Stationery	13,061	13,654
Books and Periodicals	14,267	6,042
Vehicle Expenses	7,117	5,716
Hospitality	1,160	1,550
Security Expenses	12,780	7,111
Computer Expenses	7,844	12,088
Conveyance	2,270	2,240
Training Expenses	5,655	6,990
Legal and Professional Fees	28,066	20,176
Advertising and Publicity	75,908	36,888
Provision for Doubtful Debts	683,973	33,435
Remuneration to Auditors:		
Audit Fees	490	490
Tax Audit Fees	89	85
Reimbursement of Expenses	53	65
Commonwealth Telecom. Council Contribution	6,396	3,790
Water Charges	5,759	5,509
Insurance	12,672	5,502
Donation	3,761	1,643
Miscellaneous Expenses	24,444	10,568
Recruitment Expenses	5,391	6,312
Total	1,066,552	287,967
SCHEDULE - 20		
INTEREST		
Interest		
On Fixed Loans	0	814
On Other Loans	12,231	28,488
Others	79	14,965
Total	12,310	44,267

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	Year ended 31 March '98	Year ended 31 March '97
SCHEDULE - 21		
PRIOR YEAR ADJUSTMENT		
Income		
Traffic Revenue	616,652	517,827
Interest	0	2,746
Miscellaneous Income	318	1,569
Exchange Fluctuation	858	(1,246)
Expenses:		
Excess Depreciation for earlier years written back	1,749	6,004
Further Provision of depreciation for earlier years	(15,138)	(51,852)
Charges for use of transmission facilities	(751,922)	(630,479)
Legal & Professional Charges	(3)	(5,555)
Salaries, Bonus and Staff Welfare	(4,071)	(2,607)
Administration & Other Expenses	12,924	(43,755)
Repairs and Maintenance	(154,586)	(6,925)
Travelling Expenses	(1,633)	(414)
Audit Fees	(2)	(2)
Total	(294,854)	(214,689)

Note : Figures in brackets are debits

SCHEDULE - 22

SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO THE ACCOUNTS

A. SIGNIFICANT ACCOUNTING POLICIES

I. ACCOUNTING CONCEPTS

i) Accounting policies not specifically referred to otherwise are consistent with generally accepted accounting principles.

ii) Financial statements are based on historical cost.

iii) Mercantile System of Accounting is followed and Income and Expenditure are accounted for on accrual basis.

iv) Liquidated damages earned by the company on account of delay in execution of contracts and supply of materials and services by the contractors and suppliers including contracts for capital assets have been taken as revenue income in Profit and Loss Account.

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II. FIXED ASSETS

i) From time to time, the Company acquires Indefeasible Rights of User for international telecommunication circuits in Submarine Cables. These rights extend over specific time periods. On the other hand, the Company may also grant such rights on circuits owned by it. The amount paid or received according to the terms of these transactions are recorded as additions/deductions to Fixed Assets.

ii) The Company, as successor to the Overseas Communications Service (OCS) of the Department of Telecommunications (DOT) continues to be the Indian Signatory to the International Telecommunications Satellite Organisation (INTELSAT) and the International Maritime Satellite Organisation (INMARSAT). Periodically, each Signatory's ownership share in these two organisations is adjusted to conform to the respective percentage of total use of the system or any other percentage elected within the terms of the agreement. Net Capital Contributions (that is, after adjusting the amortisations) are billed by these Organisations to the Signatories from time to time to proportion to the respective ownership share. The total of such net capital contributions are disclosed as Investments in Communication Satellites under Fixed Assets.

iii) Fixed Assets acquired by the Company are capitalised at cost inclusive of freight, duties, taxes and all incidental expenses related thereto together with the cost of spares if supplied with the assets.

iv) Fixed Assets received as gifts from other Foreign Telecom Administrations are capitalised on the basis of Notional cost (cost adopted by Customs Authorities for custom duty purpose), Freight, Insurance and Custom duty.

v) In case of borrowed funds and liabilities in foreign currencies for the acquisition of fixed assets, the exchange differences are adjusted to the cost of fixed assets.

III. DEPRECIATION ON FIXED ASSETS

i) In respect of assets taken over from Overseas Communications Service, depreciation has been provided on Straight Line method at the rates adopted in the previous years in terms of Circular No.1/86 dated 21.5.1986 issued by the Department of Company Affairs. The same is continued to be provided on the original cost to the Overseas Communications Service instead of take over cost to the Company.

ii) On the assets purchased/acquired during the period from 1 April, 1986 to 31 March, 1994, depreciation has been provided on written down value method at the rates specified from time to time in Schedule XIV of the Companies Act, 1956.

iii) On assets purchased/acquired after 31 March, 1994 depreciation has been provided on Straight Line Method at the rates prescribed in Schedule XIV of the

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Companies Act, 1956.

iv) On Plant and Machinery which has been considered to be Continuous process plant, depreciation has been provided at the applicable rate as per Schedule XIV of the Companies Act, 1956.

v) Depreciation on additions to assets or on sale/disposal of assets is calculated pro-rata from the month of such addition or upto the month of such sale/disposal as the case may be.

vi) Leasehold Lands have been amortised over the period of leases.

vii) Depreciation on Indefeasible Rights of User for International Telecommunication Circuits in Submarine Cables has been provided on the basis of balance life as intimated by the sellers.

viii) Depreciation on Notional cost of gifted assets is recouped by annual transfer out of the Capital Reserve.

ix) Assets costing upto Rs. 5,000 each is fully depreciated in the year of purchase.

x) The gain or loss arising due to exchange rate fluctuation is adjusted to the cost of the assets and depreciation is charged prospectively over the residual life of such assets.

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IV. INVESTMENTS

Long Term Investments are valued at cost and Current Investments are valued at lower of cost or realisable value.

V. INVENTORIES

Items of Stores and Spares are valued at weighted average rates after making adjustments for variations that come to notice during physical verification of stock.

VI. REVENUE RECOGNITION

i) Traffic Revenues

Major revenue is on account of recovery from Foreign Telecommunication Administrations on account of incoming traffic and recovery from Department of Telecommunications on account of delivering calls on foreign networks. Estimates are included wherever information is awaited.

ii) Revenue from Intelsat and Inmarsat

The Revenues of INTELSAT and INMARSAT Organisations are utilised by the respective organisations to meet the operating expenses and amortisation costs and any surplus then remaining is distributed to the Signatories as Compensation for use of Capital, based on the respective Ownership share of the Signatories in these Organisations from time to time. Such amounts received by the Company as the Indian Signatory from INTELSAT and INMARSAT Organisations towards Compensation for use of Capital

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are accounted as Revenue.

iii) Revenue in Respect of Insurance and other Claims

Interest etc. is recognised only when it is reasonably certain that the ultimate collection will be made.

VII. COST OF OPERATIONS

i) The major component of cost of operation is the transmission cost. The transmission cost includes cost of delivering a call on domestic network which is payable to Department of Telecommunications and cost of delivering a call on foreign network payable to Foreign Telecommunication Administrations. Estimates are included wherever information is awaited.

ii) The Company pays operating costs to INTELSAT AND INMARSAT Organisations based on usage. The Company also pays operation and maintenance costs pertaining to the Indefeasible Rights of User acquired in submarine cables, administrative lease charges for the facilities used by the company of foreign administrations, and the charges for the circuits leased by the Department of Telecommunications for the Company's Traffic operations.

iii) Government of India has designated the Company as the "National Body" to the Commonwealth Telecommunications Organisation and the Company contributes to the National Body's share of the Budget of the Commonwealth Telecommunication Bureau which is the Executive Organ of the Commonwealth Telecommunications Organisation. The Company is also responsible for India's Rights and Obligations under the "CTO 1983 Financial Agreement" which has been executed by the Government of India. Payments in this connection are recorded as costs.

VIII. RESEARCH AND DEVELOPMENT EXPENDITURE

Revenue expenses on Research & Development are charged to the Profit and Loss Account in the year in which it is incurred. Capital expenditure is taken as addition to the fixed assets.

IX. RETIREMENT BENEFITS

i) Leave Encashment benefit is charged to Profit & Loss Account on the basis of Actuarial valuation.

ii) Provision for contribution to the Employees' Gratuity Trust Fund is based on actuarial valuation after taking into account the funds available with the Gratuity Trust.

iii) Contribution to Employees' Provident fund, Benevolent Fund and Provision for Pension are charged to Profit & Loss Account.

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X. FOREIGN CURRENCY TRANSACTIONS

i) Foreign currency transactions are normally recorded at the exchange rates prevailing on the first working day of the month in which the transaction falls. In the case of traffic revenue and the charges for use of transmission facilities, foreign currency transactions are recorded at the exchange rate prevailing on the last day of the prior month.

ii) Monetary items denomited in foreign currencies at the year end other than those referred to in (iii) below are translated into Rupees at the rates of exchange prevailing at the year end.

iii) Gains and losses on foreign exchange transactions are taken into Profit & Loss Account except that :

(a) In respect of fixed assets, gains and losses on transactions of long term liabilities incurred to acquire fixed assets are adjusted to the cost of such assets.

(b) In respect of parties, the receivables from whom are considered doubtful and for which provision has been made, exchange loss has been charged to Profit & Loss Account and exchange gain has been ignored.

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XI. CONTINGENT LIABILITIES

Contingent Liabilities are not provided for and are disclosed by way of Notes.

XII. PROVISION FOR DOUBTFUL DEBTS :

Provision for Doubtful Debts is made on the following basis :

(a) In respect of outstandings from domestic parties, 50% of the amount outstanding for more than one year but less than three years and 100% of the amount outstanding for more than three years is considered doubtful.

(b) In respect of outstandings from foreign parties with whom the Company has ceased direct telecommunication links, 100% of the amount outstanding is considered as doubtful.

(c) In respect of outstandings not covered under items (a) and (b) above, the amounts considered as doubtful by management.

B. NOTES FORMING PART OF THE ACCOUNTS

1. The Company was incorporated on 19.3.1986. Government of India Vide its Order No. G 25015/6/86-OC dated 27.3.1986 transferred all the assets and liabilities of the Overseas Communications Service (part of the Department of Telecommunications, Ministry of Communications) as appearing in the Balance Sheet as at 31.3.1986 to the Company with effect from 1.4.1986. A regular Transfer Deed transferring all the

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Assets and Liabilities from the Ministry of Communications, Government of India to the Company remains to be executed.

2. Expenditure incurred during the year in connection with the Green Shoe option exercised to the extent of 2.835 million shares represented by 5.67 million Global Depository Receipts have been adjusted against Share Premium Account as permitted under Section 78 of the Companies Act, 1956.

3. (a) The Company during the year 1989-90 had adjusted the balances of Working Capital Loan and Term Loan together with accrued interest thereon aggregating to Rs. 541.67 million against the debit balance of Government of India current account as on 1.4.1989 amounting to Rs. 144.76 million and balance against Traffic Revenue dues from Department of Telecommunications. The company vide its letter No. HQ/02-01/90-FA/88 dated 16 May, 1990 and letter No. HQ/02-01/91 FA dated 13 February, 1991 had intimated the Ministry for confirming the said adjustments which is awaited.

(b) Government of India Current Account stands debited/credited with the following adjustments :

i) Payments on account of Death-cum-Retirement Gratuity, Provisional Pension, Commuted value of Pension, final settlement of General Provident Fund, etc. in respect of erstwhile Overseas Communications Service employees.

ii) Receipts and payments pertaining to the period to 1.4.1986 to the extent income/expenses are not fully provided for upto 31.3.1986.

iii) Leave encashment paid for those employees who opted for pensionary benefits from 2.1.1990. The aforesaid adjustments are subject to approval of Government of India.

(c) Other current assets include Rent of Rs. 32.04 millions due from Mahanagar Telephone Nigam Limited, Department of Telecommunications and Post & Telegraph Department for the period from 1 April, 1986 to 31 March, 1996.

4. (a) The following balances are subject to reconciliation/adjustments, if any :

i) Rs. 3.39 million (1996-97 : 52.19 million) relating to various advances to staff and shown under Loans & Advances.

ii) Rs. 11.28 million (1996-97 : Rs. 9.22 million) relating to various deductions from salaries and included in Current Liabilities.

iii) Branch Adjustments : The Branch accounts in the Head Office ledgers could not be reconciled with branch books and the difference of Rs. 0.39 million has been transferred to Branch Adjustment Account and included in the heading Other Current Assets (1996-97 : 0.30 million).

iv) Investments in communication satellite pertaining to INTELSAT amounting to Rs. 1746.99 Million. (1996-97:Rs. 1211.87 million)

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(b) Balances in respect of Sundry Debtors and Sundry Creditors are subject to confirmations/adjustments, if any.

(c) Advances include Customs Duty of Rs. 62.49 million (1996-97:Rs. 62.49 million) paid as per the demand of the custom authority. The demands have been disputed by the Company and are pending in appeal proceedings and hence the said amount has been included under the heading Advances recoverable in cash or in kind or for value to be received.

5. In respect of assets taken over from Overseas Communications Service, depreciation has been provided on Straight Line Method at the rates adopted in the previous years in terms of Circular No. 1/86 dated 21.5.1986 issued by the Department of Company Affairs. The same is continued to be provided on the original cost to the Overseas Communications Service instead of take over cost to the Company. The extent of over charged depreciation due to adoption of this basis is not ascertainable.

6. The company issued Global Depository Receipt (GDRs) aggregating to US $ 417.90 million in March/April 1997. In terms of the approval of the Government of India, the GDR proceeds are to be utilised for capital expenditure to the extent of not less than 75% thereof. The company intends to utilise 100% of GDR proceeds for capital expenditure and building strategic assets and making investments in Telecommunication projects. With the approval of Reserve Bank of India the unutilised portion of GDR proceeds amounting to US$315.02 Million have been kept in banks abroad in short term deposits. During the year the company earned an amount of Rs. 690 Million (approx.) by way of interest on such deposits which has been considered as income earned during the period of construction and has been deducted from capital work in progress/investment in ICO Global Communications as the case may be. In view of the fact that the company made GDR issue specifically for the purpose of capital projects and the expenditure is intended to be made in foreign currency out of the earmarked funds as above, balance in foreign currency as of 31.3.1998 amounting to US$ 315.02 Million equivalent to Rs 11312.30 Million are being considered as not in the nature of monetary items and hence have been carried in books at the original rate of exchange prevailing on the date of transaction and have not been restated at the rate of exchange on 31.3.1998.

7. As in the earlier years, the Company has installed certain equipments received as gift from other Foreign Telecom Administrations, and on which the Company has paid freight, insurance and customs duty amounting to Rs. 0.09 million (1996-97:Rs. 1.78 million). The Company has capitalised the said equipment at Rs 0.21 million (1996-97:Rs. 4.21 million) including notional cost of assets adopted by Customs Authorities for custom duty purposes and the notional cost amounting to Rs. 0.12 million (1996-97 : Rs. 2.43 million) has been credited to Capital Reserve Account.

8. As at 31.3.1998, there were inward traffic remittances amounting to Rs. 58.16 millions (1996-97 : Rs. 78.03 million) pertaining to earlier years remaining

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unadjusted against individual debtors in the absence of full details. The amounts so received are adjusted against Sundry Debtors.

9. Amounts due to small scale/ancillary units under the interest on delayed payments to Small Scale and Ancillary Industrial Undertakings Act, 1993 have not been disclosed in view of non-availability of requisite information.

10. Managerial Remuneration Under Section 198 of the Companies Act, 1956 :

Remuneration paid to the Chairman and Managing Director and whole-time Directors is as follows :

(Rs. in '000)

	1997-98	1996-97
i) Salaries	625	*835
ii) Contribution to Provident and other Funds	158	129
iii) Monetary value of perquisites	98	**76
Total	881	1040

* includes Rs. Nil being arrears for the previous year (1996-97 Rs. 234,730).

** includes Rs. Nil being arrears for the previous year (1996-97 : 2500)

11. Value of Imports of C.I.F. basis :

(Rs. in '000)

	1997-98	1996-97
i) Stores & Spares	25,499	63,275
ii) Capital Goods	1,173,880	609,806

12. Expenditure in foreign currency on accrual basis on account of :

(Rs. in '000)

	1997-98	1996-97
i) Charges for use of Transmission Facilities (Gross)	14,584,460	14,522,195
ii) Space Segment Utilisation Charges	1,400,521	1,154,971
iii) Administrative Lease Charges	65,328	66,586
iv) Others	40,736	34,457
v) Repairs & Maintenance	156,046	168,541
vi) Advertisement	7,009	2,304
vii) Legal & Professional Fees	5,433	14,798
viii) Inmarsat/Intelsat/Intersputnik Interest	0.3	8,238
ix) Euro Issue Expenses	76,908	287,125
Total	16,336,441.3	16,259,215

13. Earnings in Foreign Exchange on accrual basis in respect of :

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(Rs. in '000)

	1997-98	1996-97
i) Traffic Revenue (Gross)	38,562,106	33,461,534
ii) Revenue from Intelsat/Inmarsat	501,283	375,590
iii) Interest income	1,125,015	137,492
iv) Miscellaneous Income	20,951	2,921
v) Euro Issue Income	15,909	0
Total	40,225,264	33,977,537

14. Value of imported and indigenous stores & spares consumed includes used for Repairs & Maintenance Rs. 12,921,087/- (1996-97 : Rs. 56,960,656/-) :

(Rs. '000)

	1997-98		1996-97	
	Value	%	Value	%
Imported	15,644	51.91	70,604	82.82
Indigenous	14,488	48.09	14,989	17.18
	30,132	100.00	85,593	100.00

15. Estimated amount of contracts remaining to be executed on Capital Account and not provided for Rs. 3276.54 millions (1996-97 : Rs. 4235.14 millions).

16. Contingent Liabilities not provided for :

(Rs. in '000)

	1997-98	1996-97
a) Letters of Credit	526,268	136,263
b) Guarantee and Counter Guarantee Outstanding	135,268	39,900
c) Claims against the Company not acknowledged as Debts.		
i) Customs Duty	1,124	1,124
ii) Others (Motor Accident Case)	157	157
iii) Liquidated Damages	Nil	142
iv) Disputed demands of Sales Tax (Company has furnished bank guarantee for like amount)	343	343

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	1997-98	1996-97
v)Disputed Property Tax	0	86
vi) Rebate on Tariff in respect of Value Added Services	4,364	9,253
vii) Disputed claims of custom duty against which sum of Rs. 11,373,029/- has been paid under protest.	56,865	56,865
viii) Rent of Poddar Court	Not ascertainable	
ix) Stamp duty payable on purchase of property	Not ascertainable	
x) Disputed demands of customs duty against which the company has paid an advance of Rs. 5,11,20,827/- under protest.	Not ascertainable	

d) For the Assessment year 1995-96 Income Tax authorities have raised demands of tax amounting to Rs. 2393.62 Million including interest of Rs. 1250.59 Million. The said demands are disputed by the company in appeal proceedings. the Company is advised that the demands are not likely to be sustained and hence no provision is considered necessary in the accounts by the company for the above demands.

17. Previous year's figures have been regrouped and reclassified wherever necessary.

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18. Balance Sheet Abstract and Company's General Business Profile in terms of Part VI of the Companies Act, 1956.

1. Registration Details

Registration No. 3 9 2 6 6 State Code No. 1 1

Balance Sheet Date 3 1 | 0 3 | 9 8 (Refer Code List)

2. Capital Raised During the year (Amount in Rs. Thousands)

Public Issue (GDR Issue): 2 8 3 5 0

Rights Issue: N I L

Bonus Issue: N I L

Private Placement: N I L

3. Position of Mobilisation and Deployment of Funds (Amount in Rs. Thousands)

Total Liabilities: 6 6 8 0 7 6 4 0

Total Assets: 6 6 8 0 7 6 4 0

Sources of Funds

Paid-up Capital: 9 5 0 0 0 0

Reserves & Surplus: 4 0 8 5 3 0 9 3

Secured Loans: 1 5 6 2 3 1 1

Unsecured Loans: N I L

Application of Funds

Net Fixed Assets: 1 4 4 9 4 6 9 7

Investments: 3 7 3 5 5 4 2

Net Current Assets: 2 5 1 3 5 1 6 5

Miscellaneous Expenditure: N I L

Accumulated Losses: N I L

4. Performance of Company (Amount in Rs. Thousands)

Turnover: 6 4 3 6 1 3 3 2

Total Expenditure: 5 0 0 7 7 1 9 3

✓ Profit/Loss Before Tax: + 1 4 2 8 4 1 3 9

✓ Profit/Loss After Tax: + 9 6 7 9 1 6 0

Earnings per share in Rs.: 1 0 1 . 8 9

Dividend (%): 4 0

5. Generic Names of Principal Products / Services of Company (As per monetary terms)

Item Code No. (ITC Code)

Product Description: INTERNATIONAL TELECOMMUNICATIONS SERVICE

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Item Code No. (ITC Code)

Product Description

Item Code No. (ITC Code)

Product Description

* Note : For ITC code of products please refer to the publication Indian Trade Classification based on harmonized commodity description and coding system by Ministry of Commerce, Directorate General of Commercial Intelligence & Statistics, Calcutta - 700 001.

ANNEXURE I

Code List 1 : State Codes

State Code	State Name	State Code	State Name
01	Andhra Pradesh	02	Assam
03	Bihar	04	Gujarat
05	Haryana	06	Himachal Pradesh
07	Jammu & Kashmir	08	Karnataka
09	Kerala	10	Madhya Pradesh
11	Maharashtra	12	Manipur
13	Meghalaya	14	Nagaland
15	Orissa	16	Punjab
17	Rajasthan	18	Tamil Nadu
20	Uttar Pradesh	21	West Bengal
22	Sikkim	23	Arunachal Pradesh
24	Goa	52	Andaman Islands
53	Chandigarh	54	Dadra Islands
55	Delhi	56	Daman & Diu
57	Lakshwadeep	58	Mizoram
59	Pondicherry		

As per our Report of even date attached

For C.C.Chokshi & Co.
Chartered Accountants
R. Laxminarayan
Partner

For Alladi Krishnan & Kumar
Chartered Accountants
Narayan Krishnan
Partner

For and on Behalf of Board of Directors
VIDESH SANCHAR NIGAM LIMITED
Amitabh Kumar, *Officiating Chairman & Managing Director*
S. A. Tirmizi, *Director*
Satish Ranade, *Company Secretary*
V. J. Mehmi, *Chief General Manager (Finance & Accounts)*

Mumbai
13 July, 1998

Mumbai
13 July, 1998

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Cash Flow Statement

For the year ended 31st March 1998

(Rs in '000)

For the year ended	1997-98	1996-97
A. Cash Flow from Operating Activities		
Net Profit Before Tax & Extraordinary Items	14,284,139	8,477,374
Less: Adjustments For :		
Income from Investments	(792)	(720)
Interest on Bank Deposits	(434,908)	(147,161)
Interest on Other Deposits	(136,246)	(22,677)
Profit on Sale of Fixed Assets	(476)	(73)
Unrealised Foreign Exchange Difference	642,938	6,436
Provisions Written Back	(3,442)	0
Add : Non Cash Operative Expenses		
Depreciation (Less gifted assets)	654,880	576,329
Depreciation Adjustments for Prior Years	19,398	46,529
Provision for Doubtful Debts	683,973	33,435
Interest Paid	12,310	44,267
Excess Tax Provision Written Back	0	4,853
Operating Profit Before Working Capital Changes	15,721,774	9,018,592
Adjustments For :		
Trade Receivables	(2,201,972)	(2,018,529)
Other Current Assets	(147,749)	(18,321)
Inventories	1,167	(5,059)
Loans and Advances	(159,341)	(52,441)
Trade Payables	5,002,905	1,721,284
Cash Generated for Operations	18,216,784	8,645,526
Interest Paid	(12,310)	(44,267)
Direct Taxes Paid	(4,355,147)	(3,987,485)
Cash Flow Before Extraordinary Items	13,849,327	4,613,774
Extraordinary Items	(294,854)	(214,689)
Net Cash From Operating Activities - Total (A)	13,554,473	4,399,085
B. Cash Flow from Investing Activities		
Purchase of Fixed Assets	(2,891,269)	(1,778,472)
Capital Work in Progress	(350,555)	(935,638)
Sale of Fixed Assets	13,746	231
Investments in Satellite Communication	(632,344)	(669,634)
Purchase of Investment	(597,813)	(1,885,152)
Interest \ Dividend Received	571,946	170,558
Net Cash used in Investing Activities - Total (B)	(3,886,289)	(5,098,107)

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Annexure 1 to Directors' Report

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Particulars under the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988.

1. Specific areas in which R&D was carried out by the Company

- Improvement in quality of service.
- Development of telecommunication equipments for specific requirements of VSNL.
- Evaluation and introduction of new services.
- Software development for communications applications.

2. Benefits derived as a result of R&D

The benefits derived as a result of R&D activities, in brief are:

- Introduction of new innovative services like EDI, Store & forward fax, Gateway Internet Access etc.

3. Future Plans of Action

- Evaluation and introduction of other value added services like Frame Relay, ATM Managed data services. Web based EDI programme to help migration of EDI as Value Added Service over Internet and Electronic Commerce Service.
- Development of software for user applications like user terminal software for E-Mail access, EDI software etc.
- New Technologies for high speed data transfer, (64 Kb's and 2 Mb's) Telematic Terminals for ISDN services (like G4 Facsimile, colour picture trans-

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receivers).

- In-house Enterprise Network Services to be introduced over the next two years to analyse in detail the factors affecting the quality of service providing valuable inputs to improve the quality of service.

4. Expenditure on R&D

a) Capital	Rs. 59,488,450/-
b) Recurring	Rs. 7,20,15,117/-
c) Total	Rs. 13,14,83,567/-
d) Total R&D} expenditure as} percentage of} turnover}	0.21%

5. Technology absorption, adoption and innovation

- Technology development, absorption and innovation is a continuous process in VSNL in different areas through intensive R&D efforts.
- GNS services have been introduced in co-operation with British Telecom.
- No other need has arisen for any transfer of Imported Technology.

Form 'C'

Foreign Exchange earnings and outgo

Earnings	Rs. 40,225 million
Outgo	Rs. 16,336 million

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Addendum 1 to Directors' Report

Statutory Auditors' Report

Replies to the comments of Statutory Auditors included in their Report for the year 1997-98 are attached as Annexure 2 and the same form part of the Directors' Report.

On behalf of the Board of Directors

Mumbai
Dated : 19 August, 1998

Amitabh Kumar
Officiating Chairman and Managing Director

Annexure 2 to the Directors' Report

Replies to the comments of Statutory Auditors included in their Report for the year 1997-98

6(a) Note No. 3(a) and 3(b) regarding debit credit adjustments in Government of India Current Account being subject to approval of the Government.

Ans: 3(a) : VSNL was incorporated under the Companies Act, 1956 on 19.3.1986. Vide Govt. of India's order dated 27.3.1986, VSNL took over the business of erstwhile Overseas Communication Services (OCS), a Government of India department and all the assets and liabilities of OCS as appearing in the Balance sheet at 31.3.1986 were transferred to VSNL. Based on this Balance sheet, the Government of India sanctioned Term loan and Working Capital loan to the company. In the F.Y. 1989-90, the balance on the Working Capital loan and Term loan along with the accrued interest was adjusted against the debit balance of Government of India Current Account and traffic Revenue dues from Department of Telecommunications. The confirmation from Government of these adjustments has not yet been received inspite of several reminders.

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3(b) : After conversion of OCS into VSNL, in order to avoid inconvenience to the employees (particularly the retired), the Company has been making payments (on behalf of Government of India) of terminal benefits and also settling traffic imbalances with foreign administrations relating to OCS period. Government of India

Account in the books of VSNL is being operated for debiting and crediting these transactions/entries is still awaited from Government of India.

6(b) Note No.4(a) regarding advances to and recoveries from employees, inter branch adjustments and investment in communication satellite organisations being subject to reconciliation/adjustments, if any.

Ans : (i) Due to employees' transfers from one location to another, staff advances and various recoveries from salaries remain unreconciled. However, during the year the unreconciled amount has been significantly brought down to Rs. 3.39 million (1996-97: Rs. 52.19 million)

(ii) Also due to other debit/credit advices, few transactions in inter branch accounts were not reconciled. However, the Company has been able to reconcile some entries in branch adjustment account.

OCS/VSNL has been contributing towards capital of Intelsat as a signatory to Intelsat for the last 35 years. Due to non-availability of complete information for all these years, the investment in Intelsat Communication Satellite remains unreconciled.

6© Note No.4(b) regarding debit and credit balances of parties being subject to confirmation/adjustments, if any.

Ans : Monthly accounts rendered/received by the company are accepted by the counterpart as per the norms under CCITT. Therefore, the Management is of the view that separate confirmation of the balances may not be required. However, the Company is in process of obtaining confirmation for major outstandings.

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D.D. No. R.R. Comml./VSNL/A/cs/1997-98/250
Office of the Director General of Audit,
Post and Telecommunications,
Sham Nath Marg (Near Old Secretariat),
Delhi - 110054.

Date 08/09/98

To

The Chairman and Managing Director
Videsh Sanchar Nigam Limited,
Mumbai

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Subject : Comments of Comptroller and Auditor General of India under Section 619(4) of the Companies Act, 1956 on the Accounts of Videsh Sanchar Nigam Limited for the year ended 31st March 1998.

Sir,

I am to forwarded herewith the comments of the Comptroller and Auditor General of India under Section 619(4) of the Companies Act, 1956 on the Accounts of Videsh Sanchar Nigam Limited for the year ended 31st March 1998 along with 'Review of Accounts'.

The Comptroller and Auditor General of India has decided that 'Review of Accounts' by the Comptroller and Auditor General of India as enclosed may please be published as an annexure to the Director's Report. If this arrangement is not acceptable to the company, the Review will have to be treated as the Comptroller and Auditor General's comments under Section 619(4) of the Companies Act,1956 and it will be an addition to the comments sent herewith.

Kindly acknowledge receipt.

Yours faithfully

Mohinder Singh
Director

Telephone: 294 4193, 294 0312
Telex : 031-78071
Telegram : CENOFF, DELHI
Fax : 91-011-291 8228

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COMMENTS OF COMPTROLLER AND AUDITOR GENERAL OF INDIA, UNDER SECTION 619(4) OF COMPANIES ACT 1956 ON THE ACCOUNTS OF VIDESH SANCHAR NIGAM LIMITED, MUMBAI FOR THE YEAR ENDED 31ST MARCH, 1998.

A. BALANCE SHEET

II. *Application of funds*

1.Fixed Assets

d) Capital Work in progress - Rs. 16603.41 lakh.
Rs 31.27 lakh being the value of work executed up to 31 March 1998 by the Executive Engineer, CPWD, Pune on behalf of VSNL is not included in this head resulting in understatement of current liabilities by Rs. 31.27 lakh.

2. Current Liabilities and Provision

a) Current liabilities (Schedule 11)
Other liabilities - Rs. 7850.45 lakh

The above head is overstated by Rs. 366.14 lakh with corresponding understatement of profit due to :

a) Excess provision of salary arrears from 1 January, 1997 to 31 March, 1998 of Rs. 381.55 lakh and

b) Short provision of Rs. 15.41 lakh on account of non-conversion of balances at the rate of prevailing on the Balance Sheet date in respect of certain foreign currency claims payable by VSNL.

3. (b) Provisions (Schedule 12)
provision for taxation - Rs. 48926.01 lakh

This is understated by Rs. 1028.26 lakh attributable to internet revenue not provided for though it is not a deductible item under Section 80 IA. of Income Tax Act 1961.

This has also resulted in overstatement of profit after tax by Rs. 1028.26 lakh

B. PROFIT AND LOSS ACCOUNT

Expenditure

4. Operating and other expenses (Schedule 18)
Repairs and Maintenance
Plant and Machinery - Rs. 2291.46 lakh
Prior year adjustment (Schedule 21) - Rs. 2948.54 lakh

These amounts does not include Rs. 56 lakh and Rs.307.88 lakh respectively in respect of rental claims received from Department of Telecommunications (DoT) for the year 1997-98 and prior to 1997-98. These claims represent differential amount of rental payable to DoT for utilising the 140 Mbps link between Mumbai and New Delhi in terms of Demand Note No. 197 and 199 dated 2 June, 1997 and 17 June, 1997 respectively. VSNL, made a total provision of only Rs. 932.12 lakh on its own method against the total claim of Rs. 1296 lakh preferred by DoT.

This has resulted in over statement of profit by Rs. 363.88 lakh.

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5. Depreciation Rs. 6591.40 lakh
 This head is understated by Rs. 75.71 lakh due to erroneous calculation (Rs. 26.46 lakh) and short charge of depreciation (Rs. 46.25 lakh) in respect of Plant and Machinery installed at Calcutta resulting in overstatement of profit by Rs. 75.71 lakh.
6. Schedule 22. Significant Accounting Policies and Notes to the Accounts

B. Notes forming part of the Accounts item 16 - Contingent liabilities not provided for
 This does not include Rs. 3294 lakh toward claim received from DoT towards Annual Maintenance charges (AMC), penal interest on delayed payment of AMC and interest on delayed remittance of capital contribution for New Delhi - Dehradun OFC link jointly held by DoT and VSNL.
 The impact of the above comments on the company is reduction in the Profit After Tax by Rs. 1101.71 lakh.

Mohinder Singh
Director

REVIEW OF ACCOUNTS OF VIDESH SANCHAR NIGAM LIMITED FOR THE YEAR ENDED 31ST MARCH, 1998 BY THE COMPTROLLER AND AUDITOR GENERAL OF INDIA.

Note : Review of Accounts has been prepared without taking into account comments under section 619(4) of the Companies Act, 1956 and qualifications contained in the Statutory Auditor's Report.

1. FINANCIAL POSITION

The table below summarises the financial position of the Company under broad headings for the last three years :- *(Rupees in crores)*

Liabilities	**1995-96**	**1996-97**	**1997-98**
a) Paid up capital	80.00	92.17	95.00
i) Government	65.61	61.72	61.72
ii) Others	14.39	30.45	33.28
b) Reserves & Surplus			
i) Free reserves & Surplus	1234.32	1708.26	2634.38
ii) Share Premium Account	-	1174.29	1448.18
iii) Capital Reserves	3.40	3.16	2.75
c) Borrowings			
i) From Govt. of India	-	-	-
ii) From Financial Institutions	-	-	-
iii) Foreign Currency Loans	-	-	-
iv) Cash Credit	111.58	250.28	156.23
v) Others	-	-	-
vi) Interest Accrued & Due	-	-	-
d) i) Current liabilities & Provisions	1762.09	1966.47	2342.65
ii) Provisions for Gratuity	0.24	0.69	1.57
Total	3191.63	5195.32	6680.76

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Assets	1995-96	1996-97	1997-98
e) Gross block	1056.50	1234.52	1521.57
f) Depreciation	333.35	396.07	463.15
g) Net block	723.15	838.45	1058.42
h) Capital works in progress	37.41	130.98	166.03
i) Investments	220.08	475.56	598.57
j) Current assets,			
Loans and Advances	2210.99	3750.33	4857.74
Total	3191.63	5195.32	6680.76
m) Working Capital [j-d(i)-c(vi)]	448.90	1783.86	2515.09
n) Capital employed (g+m)	1172.05	2622.31	3573.51
o) Net Worth [a+b(i) + (b)(ii)-k-l]	1314.32	2974.72	4177.56
p) Net Worth per rupee of paid up capital (in Rs)	16.43	32.28	43.97

2. RATIO ANALYSIS

Some important financial ratios on the financial health and working of the Company at the end of last 3 years are as under:

	1995-96	1996-97	1997-98
A. Liquidity Ratio	1.25	1.91	2.07
Current Ratio (Current assets to Current Liabilities and provision and interest accrued & due but excluding provisions for Gratuity [j/(d)(i)+c(vi)]			
B. Debt Equity Ratio	0:1	0:1	0:1
Long Term debt to Equity [c(i) to v but excluding short term loans)/o]			
C. Profitability Ratios			
		(In percentages)	
a) Profit before tax to			
i) Capital Employed	60.52	32.33	39.97
ii) Net worth	53.97	28.50	34.20
iii) Sales	16.10	16.39	23.51

The ratio of Profit before tax to capital employed and networth shown a increasing trend during the year under report.

b) Profit after tax to Equity	511.95	547.61	1018.86
c) Earnings per share (in Rupees)	51.19	54.76	101.89

3. WORKING CAPITAL

The working capital (current assets less current liabilities) increased from Rs. 448.90 crore

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in 1995-96 to Rs 1783.86 crore in 1996-97 and Rs. 2515.09 crore in 1997-98. The increase in working capital during the last two years was mainly due to the inflow of Euro Issue Funds. Traffic revenue, as a percentage to working capital was 981,290 in 1995-96 and 1996-97 respectively but decreased to 242 in 1997-98.

4. SOURCES AND UTILISATION OF FUNDS

Funds amounting to Rs. 1319.64 crore from internal and external sources were generated and utilised during the year 1997-98 as under :

Sources of Funds :		
a) Funds generated from Operations		
Profit after Tax	967.92	
Depreciation	66.66	
Others written back	–	1034.58
b) Increase in Share Capital		2.84
c) Share Premium		282.22
Total		1319.64

Utilisation of Funds	
a) Net addition to Fixed Assets and Capital-work-in-progress	322.10
b) Euro Issue Expenses	8.33
c) Increase in investments	123.02
d) Dividend paid	30.80
e) Decrease in Bank loans	94.04
f) Increase in work capital	741.35
Total	1319.64

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5. WORKING RESULTS

The working results of the Company for the last three years are given below :

	1995-96	1996-97	1997-98
Traffic revenue + Revenue from INTELSAT / INMARSAT	4434.24	5210.58	6125.11
Profit for the year	709.34	847.73	1428.41
Prior period adjustments [Dr(+) Cr(-)]	(-)15.54	(-)21.47	(-)29.49
Profit before tax	693.80	826.26	1398.92
Tax provision	285.00	322.01	431.01
Profit after tax	408.80	504.25	967.91

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6. Sundry Debtors

Sundry debtors vis-a-vis traffic revenue in the last three years are given below :

As on	Sundry debts (all considered good)	Traffic Revenue	Percentage Sundry Debtors to traffic revenue
31.3.1996	1331.34	4403.80	30.23
31.3.1997	1529.85	5171.30	29.58
31.3.1998	1681.67	6074.98	27.68

	1995-96	1996-97	1997-98
Sundry Debtors in terms of month's sales	3.63	3.55	3.32

The Sundry Debtors as on 31st March, 1998 were outstanding for the periods indicated below :

	Foreign	Domestic	Total
Debts outstanding			
i) Up to one year	1440.53	14.40	1454.93
ii) More than one year but less than 2 years	148.06	1.79	149.85
iii) 2 years or more but less than 3 years	28.58	17.27	45.85
iv) For 3 years or more	100.34	9.57	109.91
Total			1760.54

Note : Last year's figures recasted wherever necessary

Mohinder Singh
Director

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REPLIES TO THE COMMENTS OF COMPTROLLER & AUDITOR GENERAL OF INDIA U/S 619 (4) OF THE COMPANIES ACT, 1956 FOR THE YEAR 1997-98.

A. BALANCE SHEET

II. APPLICATION OF FUNDS

1. Fixed Assets

d) Capital work in progress - Rs. 16603.41 lakh

Rs. 31.27 lakh being the value of work executed up to 31st March, 1998 by the Executive Engineer, CPWD, Pune on behalf of VSNL is not included in this head resulting under statement of current liabilities by Rs. 31.27 lakh.

Reply. This will be rectified in F.Y. 1998-99.

2. Current Liabilities and Provision

a) Current Liabilities (Schedule 11)

Other liabilities - Rs. 7850.45 lakh

The above head is overstated by Rs. 366.14 lakh with corresponding understatement of profit due to :

a) Excess provision of salary arrears from 1st January, 1997 to 31st March, 1998 of Rs. 381.55 lakh and

b) Short provision of Rs. 15.41 lakh on account of non-conversion of balances at the rate of prevailing on the Balance Sheet date in respect of certain foreign currency claims payable by VSNL.

Reply. a) The pay scales are due for revision from 1.1.1997. Provision for arrears has been made based on management's perception of the likely increase in staff cost for 15 month period from 1.1.1997 to 31.3.1998.

b) This will be rectified in F.Y. 1998-99.

3. b) Provisions (Schedule 12)

Provision for Taxation - Rs. 48926.01 lakh

This is understated by Rs. 1028.26 lakh attributable to internet revenue not provided for though it is not a deductible item under section 80 I-A of Income Tax Act1961. This has also resulted in over statement of profit after tax by Rs. 1028.26 lakh.

Reply. In the view of management and as per professional advice from tax consultants, profit from internet services qualities for benefit under section 80 I A of the Income Tax Act,1961.

B. PROFIT AND LOSS ACCOUNT

EXPENDITURE

4. Operating and other expenses (Schedule 18)

Repairs and maintenance

Plant and Machinery - Rs. 2291.46 lakh

Prior year adjustment (Schedule 21) - Rs. 2948.50 lakh

This amount does not include Rs. 56 lakh and Rs. 307.88 lakh respectively in respect of rental claims received from Department of Telecommunications (DoT) for the year

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1997-98 and prior to 1997-98. These claims represent differential amount of rental payable to DoT for utilising the 140 Mbps link between Mumbai and New Delhi in terms of Demand Note no. 197 and 199 dated 2nd June 1997 and 17th June 1997 respectively. VSNL made a total provision only Rs. 932.12 lakh on its own method against the total claims of Rs. 1296 lakh preferred by DoT.
This has resulted in overstatement of profit by Rs. 363.88 lakh.

Reply. DoT has unilaterally communicated the rates for hiring 140 MBPS link between Mumbai and New Delhi for cable restoration in case of breakdown of Sea-Me-We 2 Cable. In the view of management, these rates are very high with reference to existing rates for similar link and have, therefore, not been accepted. VSNL, vide its letter no. HQ/39-10(SMW2)/98-TO/7 dated 16th March 1998, has made a counter proposal to DoT based on reasonable and fair rates. Provision in the accounts has been made as per VSNL's proposal since no response has been received from DoT on VSNL's proposal 16.3.1998 inspite of reminders.

5. Depreciation Rs. 6591.40 lakh
This head is understated by Rs. 75.71 lakh due to erroneous calculation (Rs. 29.46 lakh) and short charge of depreciation (Rs. 46.25 lakh) in respect of Plant and Machinery installed at Calcutta. Resulting in over statement of profit by Rs. 75.71 lakh.

Reply. This will be rectified in the F.Y. 1998-99.

6. SCHEDULE 22. SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO THE ACCOUNT

B. Notes forming part of the Accounts

Item 16 - Contingent liabilities not provided for
this does not include Rs. 3294 lakh toward claim received from DoT towards Annual maintenance charges (AMC), penal interest on delayed payment of AMC and interest on delayed remittance of capital contribution for New Delhi - Dehradun OFC link jointly held by DoT and VSNL.
The impact of the above comments on the company is reduction in the Profit After Tax by Rs. 1101.71 lakh.

Reply. The amount of Rs. 3294 lakhs represents interest on delayed payment of capital cost for sharing the capital cost of OFC link between Dehradun and Delhi, enhanced AMC charges for the same link and interest on AMC charges.

In respect of interest on capital cost, the delay in payment was due to DoT not furnishing the Statement of Account for the completed cost of works in time. The AMC charges notified in 1992 have been enhanced by DoT to more than double in Jan-1998 from back date and also levied interest retrospectively without proper justification. VSNL has, therefore, contested all these charges vide its letter no HQ/39-01/98-TO/40 dated 27 February 1998. In the absence of any agreement, the provision for Contingent Liability is not considered necessary.

As per the management, impact of the above observations on the company is reduction in the Profit After Tax by Rs. 65.28 lakhs.

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Financial Statements for the year ended 31 March 1998

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Introduction

These financial statements have been prepared to provide financial information on Videsh Sanchar Nigam Limited ("the Company") in accordance with International Accounting Standards ("IAS"). The basis of preparation is described in the notes to the financial statements.

Formation

The Company is incorporated in India as a limited liability company under the Indian Companies Act 1956.

Activities

The Company is the sole provider of international telecommunications services to India.

The details of the trading results are given on page 6 [* Page no. 141 of this report refers]. The improved turnover and profits reflect the continued growth in both incoming and outgoing traffic. During the period the Company continued to invest in the expansion of its international traffic network. This has resulted in an increase in the number of international telephone circuits from 14,184 to 15,431 in the period.

The Company issued 15 million shares represented by 30 million Global Depository Receipts (GDRs) amounting to US $ 417.90 million. Of these 15 million shares, 12.165 million shares were issued on 27 March, 1997 & the balance 2.835 million shares were issued on 4 April 1997. In addition to the above, 3.9 million shares of the Company (represented by 7.8 million GDR's) held by the Government of India were disinvested.

Ownership

As at 31 March, 1998, the Government of India holds 64.97 per cent (66.97 per cent as at 31 March,1997) of the issued share capital of the Company . An analysis by type of shareholder was as follows :

Government of India	64.97%
Indian Financial Institutions and Banks	9.52%
Foreign Banks and Institutions	25.43%
Public - India and abroad	0.08%

New Revenue Sharing Agreement

With effect from April 1, 1997, the Company has adopted a new revenue sharing agreement with the Department of Telecommunications ("DoT"). This agreement will cover the period upto 31 March, 2002. The new revenue sharing agreement is intended to result in an average gross profit to the Company of Rs. 10 per call minute

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in each of the financial years ending March 31, 1998 and 1999. This is based on the assumption that applicable settlement rates and exchange rates and the composition of incoming and outgoing traffic from and to applicable destinations remain constant during this period. If there are any fluctuations to any of these constants, either to the benefit or detriment of VSNL, the same will be enjoyed / borne by VSNL as the case may be. However in the financial years ending March 31, 2000, 2001 and 2002, the Company will be required under the new agreement to absorb an increasing portion of any decline in the combined international traffic revenue per call minute of the Company and DoT (net of payments by the Company to foreign administrations and carriers and by the Company and DoT to each other in respect of delivery of incoming and outgoing calls) compared to the financial year ending March 31, 1998. This agreement is subject to review if, in any of the last three financial years, the Rs/US $ exchange rate fluctuates by more than 10 per cent in either direction and/or VSNL earns less than Rs. 9 per minute or more than Rs. 11 per minute in order to correct the imbalance.

Reporting currency

The financial statements have been presented in millions of Indian Rupees. The financial information for the period ended 31 March, 1998 is also presented in millions of US dollars. Translations from Rupees to US dollars have been made on the basis of the exchange rate at 31 March, 1998, as declared by the company's bankers, of Rs. 39.49=US $ 1. No representation is made that Rupees could have been or could be converted into US dollars at any particular rate or at all.

Directors

The names of the directors of the Company serving during the period and to March 31, 1998 with their respective dates of appointment and resignation are as follows :

Mr. B. K. Syngal	Chairman & Managing Director (until 30 June, 1998)
Mr. Amitabh Kumar	Director (Operations)
Mrs. S. A. Tirmizi	Director
Mr. B. R. Khurana	Director (w.e.f. 23.7.97)
Mr. R. K. Gupta	Director (Development)(till 20th February,1998)

None of the directors or other senior management held or received any shares or options to acquire shares in the Company during the period ended 31 March, 1998.

No directors or senior management personnel held any advances as at 31 March, 1998, except those granted under staff loan schemes on similar terms to other employees.

Registered Office

The registered office of the Company is :

Videsh Sanchar Bhavan,
Mahatma Gandhi Road,
Mumbai 400 001, India.

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Report of the Auditors

To the Members of Videsh Sanchar Nigam Limited

We have audited the accompanying balance sheet of Videsh Sanchar Nigam Limited as of 31 March, 1998 and the related income and cash flow statements for the year then ended. These financial statements set out on pages 6 to 25 [* Page no. 144 to 154 of this report refers] are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements present fairly in all material respects the financial position of Videsh Sanchar Nigam Limited as on 31 March, 1998 and of the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.

Price Water House Coopers
16 November, 1998
London

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Profit & Loss Account

For the period ended 31 March, 1998

	Note	March 98 US$ m	March 98 Rs m	March 97 Rs m
REVENUE	3	1,548	61,114	52,222
Network and transmission costs	4	(1,113)	(43,940)	(39,009)
Other operating costs	5	(76)	(2,993)	(2,307)
License fee/Government levy		(95)	(3,750)	(4,192)
OPERATING PROFIT		264	10,431	6,714
Investment and other income	6	104	4,098	954
Net interest income / (expense)	7	32	1,267	129
Share of loss of associated undertaking		(1)	(26)	(36)
PROFIT BEFORE TAXATION		399	15,770	7,761
Taxation	8	(118)	(4,679)	(2,761)
PROFIT AFTER TAXATION		281	11,091	5,000
Dividends		(10)	(418)	(308)
RETAINED PROFIT FOR THE YEAR	16	271	10,673	4,692
Reserves at the beginning of the year		723	28,579	12,146
Share premium received	16	71	2,822	12,043
Expenses on share issue	16	(2)	(83)	(327)
Retained profit for the year	16	271	10,673	4,692
RESERVES AT THE END OF THE YEAR		1,063	41,991	28,554
Earnings per share - basic	20	2.96	Rs.116.72	Rs 62.40

All the Company's activities are continuing activities. These financial statements should be read in conjunction with the notes on pages 9 to 25 [* Page no. 144 to 154 of this report refers].

Amitabh Kumar
Acting Chairman and Managing Director.
1998

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Balance Sheet As at 31 March, 1998

	Note	March 98 US$ m	March 98 Rs m	March 97 Rs m
ASSETS				
Tangible fixed assets	9	323	12,780	10,000
Fixed Asset Investment	10	151	5,923	4,715
Fixed assets		474	18,703	14,715
Investments		1	55	5
Inventories		–	10	12
Debtors	11	474	18,740	16,271
Cash and bank	19	665	26,265	14,594
Current assets		1,140	45,070	30,882
Total assets		1,614	63,773	45,597
EQUITY AND LIABILITIES				
Share capital	17	24	950	922
Reserves	16	1,063	41,991	28,554
Share capital and reserves		1,087	42,941	29,476
Loans and other borrowings	12	40	1,562	2,503
Creditors	13	353	13,958	10,500
Accruals and other liabilities	14	134	5,312	3,118
Current liabilities		527	20,832	16,121
Total equity and liabilities		1,614	63,773	45,597

These financial statements should be read in conjunction with the notes on pages 9 to 25 [* Page no. 144 to 154 of this report refers].

Amitabh Kumar
Acting Chairman and Managing Director.
1998

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Cash Flow Statement

For the year ended 31st March, 1998

	Note	March 98 US$ m	March 98 Rs m	March 97 Rs m
NET CASH INFLOWS FROM OPERATING ACTIVITIES	18	319	12,587	3,526
CASH FLOW FROM INVESTING ACTIVITIES				
Purchase of tangible fixed assets		(74)	(2,909)	(2,549)
Net investment in satellite consortia		(31)	(1,234)	(2,519)
Purchase of other investments		(1)	(24)	–
Other investment income		44	1,733	582
Net cash used in investing activities		(62)	(2,434)	(4,486)
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayment of long term borrowings				
Dividends paid		(8)	(308)	(360)
GDR proceeds net of expenses		70	2,767	11,838
NET CASH GENERATED / (UTILISED) BY FINANCING ACTIVITIES		62	2,459	11,478
NET INCREASE IN CASH AND CASH EQUIVALENTS	19	319	12,612	10,518

These financial statements should be read in conjunction with the notes on pages 9 to 25 [* Page no. 144 to 154 of this report refers].

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1 BASIS OF PREPARATION AND ACCOUNTING RECORDS

(A) Basis of preparation

The financial statements have been prepared in accordance with the accounting and reporting requirements of the International Accounting Standards ("IAS") issued by the International Accounting Standards Committee. The financial statements have been prepared using the historic cost convention. The significant accounting policies adopted by the Company, which have been consistently followed, are set out below.

(B) Accounting records

The accounting records of the Company are maintained in accordance with Indian law and their statutory accounts are drawn up in accordance with the accounting requirements of Indian law and Indian accounting practice.

In order to prepare the financial statements for the year ended March 31, 1998 a number of adjustments were made to the amounts included in the accounting records of the Company. In certain cases these records did not provide sufficient information to present the financial statements under IAS and, accordingly, estimates were made on the basis of the best information available.

Whilst the individual estimates are subject to a degree of uncertainty, their overall effect on the financial statements for the years ended 31 March, 1997 and 1998 is not regarded as substantial. The areas subject to these uncertainties are depreciation and debtor provisions.

2. STATEMENT OF ACCOUNTING POLICIES

(A) Revenue

Revenues for all services are recognised when earned.

The majority of revenues are derived from payments by the Department of Telecommunications (the "DoT") of the Government of India (the "Government") for completing outgoing calls made from India and from payments by foreign administrations for incoming calls that originate outside India.

The Company must pay a proportion of the amounts received from the DoT to transit and destination foreign administrations. Similarly, a proportion of the payments from the foreign administrations is paid to the DoT for completing calls within India. These revenues and costs are stated gross in these financial statements. In the balance sheet amounts payable to, and receivable from, the same administration and the DoT, are shown net where a legal right of set-off exists.

(B) Tangible fixed assets.

Fixed assets are stated at cost less depreciation.

1) Cost

Cost comprises all expenses relating to commissioning the asset including freight, duties, taxes, payments on account and all direct expenses related to installation together with the cost of spares if supplied with the assets.

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2) Depreciation

Depreciation is calculated on tangible fixed assets on a straight line basis from the time they are available for use, so as to write down the cost at which the assets are acquired to their estimated residual values, over the remaining economic lives.

No depreciation is provided on freehold land.

The total lives assigned are as follows:

	Years
Earth stations	12
Cables	10 - 25
Exchanges	12
Other network equipment	8
Buildings	61
Furniture, fittings & vehicles	6 - 20

(c) Fixed asset investments

(i) Fixed asset investments are stated at cost, reduced by provisions where the directors consider there has been a permanent diminution in value. Any amounts received from Intelsat and Inmarsat for the repayment of the capital cost of the Company's investment are taken as a reduction in the cost of the investment.

Income from the Company's investments in Intelsat and Inmarsat is accrued on the basis of trading statements received from these organisations and included in "Investment and other income".

(ii) Associated undertakings

Associated undertakings are companies in which the Company has a participating interest (usually from 20% to 50%) which is held for the long term and over whose operating and financial policies it exercises a significant influence. The profit and loss account includes the Company's share of profits less losses of associated undertakings. The balance sheet includes interests in associated undertakings at the value of the Company's share of the net assets of those undertakings. No adjustments are made where the financial statements of the undertaking are prepared using Indian GAAP unless management considers the adjustments required to comply with IAS to be significant.

(d) Debtors

Debtors are valued at expected realisable value, after provision for bad and doubtful accounts.

(e) Operating leases

Costs in respect of operating leases are charged to the profit and loss account on a straight line basis over the lease term.

(f) Foreign currencies

Revenues and costs arising in foreign exchange are booked every month at rates prevailing on

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the first working day of the month in which the transaction falls. In the case of traffic revenue and charges for the use of transmission facilities, foreign currency transactions are recorded at the exchange rate prevailing on the last day of the prior month. Monetary assets and liabilities are translated into Rupees at the exchange rates ruling at the balance sheet date. Exchange differences arising on the settlement of monetary items or on reporting the Company's monetary items at rates different from those at which they were initially recorded in the period, or reported in previous financial statements, are recognised as income or expenses in the period in which they arise.

(G) RESEARCH AND DEVELOPMENT

Research and development costs are charged to the profit and loss account as incurred.

(H) TAXATION

The taxation expense charged to earnings includes both current taxation and deferred tax where appropriate. Deferred taxation calculated using the liability method is accrued for all significant timing differences to the extent that they are expected to reverse within the foreseeable future.

(I) RETIREMENT BENEFITS

The company has various schemes of retirement benefits such as Pension, Gratuity, Provident fund, recognised by the Income tax authorities. These funds are administered through trustees and the company's contributions are charged against revenue each year. Provision for gratuity, pension and leave encashment are based on an actuarial valuation done every year as at 31 March.

(J) CURRENT ASSET INVESTMENTS

Current asset investments are stated at the lower of cost or market value.

(K) SEGMENTAL REPORTING

The Company carries on business as the sole provider of international telecommunications services to India.

3. REVENUE

	March 98 US $ m	March 98 Rs m	March 97 Rs m
Incoming telephone	970	38,304	33,392
Incoming telex	7	273	353
Receipts from the DoT for outgoing traffic			
- telephone	494	19,514	16,429
- telex	5	197	227
Leased circuits	49	1,936	1,184
Telegraph, television and others	23	890	637
	1,548	61,114	52,222

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	March 98 US $ m	March 98 Rs m	March 97 Rs m
4. NETWORK AND TRANSMISSION COSTS			
Payments for traffic costs to			
- the DoT	683	26,940	21,812
- foreign administrations	372	14,704	14,866
- prior period discounts	–	–	193
- rent of land lines	21	849	874
- other transmission facilities	37	1,447	1,264
	1,113	43,940	39,009
5. OTHER OPERATING COSTS			
Staff costs			
- wages and salaries	17	685	532
- pension costs	–	1	16
- social security contribution	2	56	34
	19	742	582
Depreciation	27	1,056	829
Energy costs	3	123	100
Repairs, maintenance, marketing and other costs	27	1,072	796
	76	2,993	2,307
6. INVESTMENT AND OTHER INCOME			
Revenue from Intelsat	11	426	319
Revenue from Inmarsat	2	76	56
Income from other investments	–	1	1
Foreign exchange gains (net) *	89	3,523	529
Other income	2	72	49
	104	4,098	954

* The foreign exchange gain principally arises from the retranslation of cash balances held in foreign currencies into Rupees at the year end exchange rate.

7. NET INTEREST INCOME / (EXPENSE)			
Interest received / receivable			
- interest on bank deposits	29	1,143	147
- interest on other deposits	3	136	26
Interest paid / payable	–	(12)	(44)
	32	1,267	129

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	March 98 US $ m	March 98 Rs m	March 97 Rs m
8. TAXATION			
Tax charge on the profit for the year	110	4,379	2,935
Deferred tax	8	300	(69)
Reduction relating to the prior year (see below)	–	–	(105)
Tax provision for the period/year	118	4,679	2,761

The Statutory income tax rate can be reconciled to the effective tax rate as follows :

Statutory Income-tax rate (%)	35.0	43.0
Reduction in tax charge due to : (%)		
Accelerated depreciation on fixed assets	(1.45)	(3.5)
Investment incentives	(4.36)	(5.0)
Disallowable expenditures/taxable incomes	0.47	0.9
Adjustment for change in tax rate	Nil	0.2
Effective Tax rate (%)	29.7	35.6

The Finance Act 1997 introduced during May 1997 introduced certain incentives for investments which applied retrospectively with effect from 1 April, 1995.

9. TANGIBLE FIXED ASSETS

	Land & buildings Rs m	Plant & machinery Rs m	Furniture fittings & vehicles Rs m	Total Rs m	Total US $ m
Cost					
At 1 April `97	939	11,128	285	12,352	313
Additions	150	2,627	108	2,885	73
Disposals	(1)	(25)	–	(26)	(1)
At 31 Mar `98	1,088	13,730	393	15,211	385
Depreciation					
At 1 April `97	58	3,493	106	3,657	93
Charge for the year	17	1,001	38	1,056	27
Disposals	–	(27)	1	(26)	(1)
At 31 Mar `98	75	4,467	145	4,687	119
Net book value at 31 March `98	1,013	9,263	248	10,524	266
Payments on account and assets in course of construction				2,256	57
Total net book value of fixed assets at 31 March `1998				12,780	323
Total net book value of fixed assets at 31 March `1997				10,000	253

Additions are shown net of transfers between capital work in progress and other fixed asset categories.

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10. FIXED ASSET INVESTMENTS

	March 98 Total US $ m	March 98 Total Rs m	March 98 Investments Rs m	March 98 Associated undertaking company Rs m	March 97 Investments Rs m
Cost at 1 April	119	4,715	4,683	32	2,196
Additions during the year - net	33	1,234	1,234	–	2,555
Share of losses of associated company	(1)	(26)	–	(26)	(36)
Cost at 31 March	151	5,923	5,917	6	4,715

The Company's fixed asset investments include investments in satellite consortia - Intelsat and Inmarsat, investments in I-CO Global Communications Limited and in Telstra Vishesh Communications Limited.

During the year, the Company made a total contribution of Rs. 564 million to Intelsat and Rs. 112 million to Inmarsat satellite organisations, based on their quarterly allocation bills and year end redetermination bills, consequent to which the Company owned 3.35% and 2.03% of Intelsat and Inmarsat, respectively (31 March 1997: 2.87% and 1.72% respectively). The Company's share of the net assets of both of these investments exceeds the carrying values included above.

During the year, the Company paid the balance of US $ 15 per share on the 1,032,519 ordinary shares held by it, amounting to Rs. 558 million. Consequently, as at 31 March, 1998, the company holds 1,032,519 fully paid shares of US$ 0.01 each, with a premium of US$ 99.99 per share, representing a 6.91 per cent holding in ICO Global Communications Limited, an organisation promoted by Inmarsat for providing hand held satellite communication services.

The Company has acquired through a rights issue 467,445 shares of US$ 0.01, with a premium of US$ 99.99 per share and paid US$ 0.01 per share on December 12, 1997, amounting to Rs. 167,859. There is a balance of US$ 99.99 per share due for payment, representing a total commitment of US$ 46.74 million (Rs.1,678 million as at 31st March, 1998).

As at 31 March, 1998, the Company has a 40% shareholding in Telstra Vishesh Communications Limited, whose principal business activity is the trading of telecommunications equipment. The Company has exercised rights to acquire 2.4 million shares during 97-98 for Rs. 24 million.

11. DEBTORS

	March 98 US $ m	March 98 Rs m	March 97 Rs m
Amounts due from foreign administrations	411	16,253	14,125
Domestic trade debtors	11	418	324
Deferred tax asset (note 15)	–	–	69
Advance tax	33	1,301	1,257
Other advance payments	19	768	496
	474	18,740	16,271

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	March 98 US $ m	March 98 Rs m	March 97 Rs m
12. LOANS AND OTHER BORROWINGS			
Secured overdrafts			
- Indian Overseas Bank	40	1,562	2,503

The bank overdraft is secured against the Company's debtors, and is denominated in Rupees at commercial rates of interest.

13. CREDITORS			
Amounts due to foreign administrations	26	1,043	962
Amounts due to DoT for traffic settlement (net)	327	12,915	9,538
	353	13,958	10,500
14. ACCRUALS AND OTHER LIABILITIES			
Income received in advance	26	1,031	421
Other liabilities	88	3,474	2,329
Provision for Retirement benefits	2	89	60
Deferred Taxation (Note 15)	7	300	–
Dividend	11	418	308
	134	5,312	3,118

Dividends payable represents dividends declared for the year ended 31 March, 1998 and includes irrecoverable tax on dividends of Rs. 38 million representing 10% of the dividend declared.

15. DEFERRED TAXATION			
Deferred taxation			
Amount provided	7	300	–
At 1 April	(2)	(69)	–
Transferred to profit and loss account	2	69	(69)
At 31 March	7	300	(69)
Full potential liability			
Accelerated capital allowances	36	1,439	1,479
Other timing differences	(9)	(368)	(352)
Normal charge for reversing timing differences @ 35% (previous year 43%)	27	1,071	1,127
Adjustment for change in tax rate			(210)
Full potential liability at 35%	27	1,071	917

The full potential liability for deferred tax rate at 31 March, 1998 has been established using a tax rate of 35%, being the statutory rate in force from 1 April, 1997.

The International Accounting Standards Committee has recently issued International Accounting Standards No 12 - Income Taxes which is to become operative for financial statements covering

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periods on or after 1 January, 1998. As a result the directors will implement this standard with effect from 1 April, 1998. If these requirements had been adopted in preparing these financial statements, a provision of Rs. 1,071 million would have been needed at 31 March, 1998.

	March 98 US $ m	March 98 Rs m	March 97 Rs m
16. RESERVES			
Revenue reserves			
Opening balance	723	28,579	12,146
Share premium arising during the year	71	2,822	12,043
Share issue expenses adjusted during the year	(2)	(83)	(327)
Retained profit for the year	271	10,673	4,692
At 31 March	1,063	41,991	28,554
17. SHARE CAPITAL			
Authorised			
100,000,000 equity shares of Rs. 10 each	25	1,000	1,000
Issued, subscribed and paid up			
95,000,000 equity shares of Rs. 10 each (92,165,000 shares as at March 31, 1997)	24	950	922
	24	950	922

The Company has issued 15 million shares represented by 30 million Global Depository Receipts (GDR's) raising some US $ 418 million. Of these 15 million shares, 12.165 million shares were issued on 27 March, 1997 raising US$ 339 million. The balance of 2.835 million shares were issued on 4 April, 1997, giving rise to a share premium on issue of Rs. 2,822 million.

18. NET CASH FLOW FROM OPERATING ACTIVITIES			
Net profit before tax	399	15,770	7,761
Adjustments for :			
Depreciation	27	1,056	829
Foreign exchange loss on conversion	(16)	(643)	(287)
Investment income	(15)	(575)	(425)
Net interest (income)/payable	(32)	(1,267)	(129)
Operating profit before working capital adjustments	363	14,341	7,749
(Increase) / decrease in trade and other debtors	(42)	(1,661)	(1,864)
(Increase) / decrease in inventories		2	(5)
Increase in trade creditors	88	3,458	554
Increase in accruals and other liabilities	22	882	1,049
Cash generated from operations	431	17,022	7,483
Interest paid		(12)	(44)
Taxation paid	(112)	(4,423)	(3,913)
Net cash flow from operating activities	319	12,587	3,526

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	March 98 US $ m	March 98 Rs m	March 97 Rs m
19. ANALYSIS OF CHANGES IN CASH AND CASH EQUIVALENTS			
Opening balances			
Cash at bank and in hand	370	14,594	2,407
Overdraft	(64)	(2,503)	(1,116)
	306	12,091	1,291
Effect of foreign exchange rates	59	2,326	282
Movement	260	10,286	10,518
Closing cash balance net of overdraft	625	24,703	12,091
Cash and bank	665	26,265	14,594
Loans and other borrowings (note 12)	(40)	(1,562)	(2,503)
	625	24,703	12,091

Cash and bank includes Rs. 12,439 million being short term deposits held with overseas banks, the use of which is restricted to the import of capital equipment, except for Rs. 3,110 million which can also be utilised towards other general corporate restructuring uses including working capital requirements.

20. EARNINGS PER SHARE

The calculation of basic earnings per share is based on annualised profit on ordinary activities after taxation of Rs. 11,091million (31 March, 1997 - Rs. 5,000 million; and the weighted average number of shares in issue during the year of 94,976,698
(31 March, 1997 - 80,166,644)

21. CONTINGENT LIABILITIES

The Company has contingent liabilities arising in the normal course of business on which the management believes that no significant liabilities will arise.

22. COMMITMENTS

(a) Capital commitments

The capital commitments represent expenditure, principally relating to the construction of new buildings, submarine cables and expansion of transmission equipment which had been committed under contractual arrangements and unpaid amounts on investments, with the majority of payments due within one period. As at 31 March, 1998 the amount of these commitments totalled Rs. 3,277 million
(Rs. 3,054 million as at 31 March, 1997).

(b) Operating leases

The Company has entered into leases with the DoT and certain foreign telecommunications administrations for the rent of transmission facilities. The capacity leased can be varied depending upon the volume of traffic and may be cancelled within one year.

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23. DIRECTORS REMUNERATION

A listing of the members on the Board of Directors is shown on page 4 [* Page no. 139 of this report refers]. In 1998, the total remuneration of the directors approximated Rs. 0.88 million (1997 - Rs. 1.04 million).

24. OTHER INFORMATION

Set out below is a reconciliation of VSNL's statutory accounts and the IAS financial statements together with brief explanations of the major differences.

	March 98 US $ m	March 98 Rs m	March 97 Rs m
Profit after taxation and dividend as per Indian GAAP	235	9,261	4,739
Depreciation rates	(10)	(388)	(207)
Share of loss of associated undertaking	(1)	(26)	(36)
Deferred taxation	(7)	(300)	69
Provision for bad and doubtful debts	11	451	(89)
Net (reduction)/increase in operating profits	(7)	(290)	-
Income tax adjustments	(2)	(69)	385
Other items	5	197	(169)
Interest on GDR	17	690	-
FE gain on GDR funds	29	1,147	-
Retained profit as per IAS accounts	270	10,673	4,692

The differences between the Indian statutory accounts and the IAS accounts arise as a result of differences in accounting policies, the different dates at which the respective audits were carried out and the correction of certain under / over estimates. These are explained in more detail below :

(a) Depreciation rates

In the statutory accounts, assets purchased upto 31 March, 1994 have been depreciated using the reducing balance method whereas assets purchased subsequent to that date have been depreciated using the straight line method of depreciation. Under IAS depreciation must be charged so as to write off the cost of an asset over its useful economic life. In preparing the IAS accounts, management has estimated asset lives for the various fixed asset categories and has provided depreciation on a straight line basis so as to write off the cost of the assets evenly over their estimated lives.

(b) Deferred taxation

No provision is made for deferred taxation in the Indian statutory accounts. Under IAS provision is made for deferred taxation for all timing differences to the extent that it is believed they will reverse in the foreseeable future.

(c) Additional provision for bad and doubtful debts

For the purposes of the IAS accounts the management takes a prudent view of the provision required for bad and doubtful debts. A general provision is made for long outstanding debts and specific provisions are made against those countries where have been historical difficulties

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in obtaining payment. From the current year onwards, the policy for provisioning of bad and doubtful debts has been changed in the Indian GAAP, to keep in line with the policy being followed for IAS accounts.

(d) Income tax adjustments

As described in note 8, the Finance Act 1997 introduced certain incentives for investment which reduced the company's tax charge. These incentives were not recorded in the tax charge included in the statutory accounts.

(e) FE gain on GDR Funds

In the Indian GAAP FE gain on unutilised portion of GDR funds is not recognised. However, under IAS account same has been recognised as other income.

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Online business, **wholesale** and retail, is expected to leap from $1.2 billion to $64.4 billion over the next three years.

In Germany, the big draw is on-line banking. Already 3.5 million Germans do their banking electronically. For decades, Germans have had to fit their lives to a cash economy and banks that are open six hours on weekdays. On-line banking promises relief.

Internet users - estimated at 50 million worldwide - access the network by making a local telephone call from their PC modem to an internet service provider. Although an internet user must be accessing data from a computer from the other side of the world, he or she pays only local call rates. This is what lies behind the economics of internet-based telephony. The internet could be used for many other telephony services, including faxing, paging, video-conferencing, collaborative computing, business-to-business applications and electronic commerce. Today's internet phones use a PC, special software, microphone, speakers and a plug in computer card that converts speech to data, and vice-versa.

Finland has the world's highest ownership of mobile phones (33 mobiles for every 100 people), the world's highest Internet (and probably modem) penetration and more public pay phones per head than almost anywhere else in Europe. It also has the second-lowest business call charges in the OECD (after Iceland) and the fifth-lowest residential (after the Nordic countries).

90% of the earth's surface is **inaccessible** for conventional telephony.

Nokia is building an office block at Tampere, in Finland, with no fixed-line telephones. Instead like Andersen Consulting it is creating more meeting places. Telecom Finland is already experimenting with some corporate customers who use nothing but mobile phones, operating them as an extension of their switchboard and getting all the charges put on a single bill.

Andersen Consulting threw out 120 tonnes of paper from its old Boston offices. So where, you ask, do they file their papers? Some of the savings on offices have been invested in building what is grandly called the 'Knowledge Exchange' - a vast on-line database containing the company's accumulated wisdom, available to Andersen people anywhere in the world, seven days a week. The benefits, the partners claim, are not merely the more efficient use of property, but easier and speedier access to information for everyone. The result is 'better, faster, cheaper' - the battle-cry of the communications revolution.

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In an effort to make India an information technology superpower over the next decade and to ensure that the majority of the citizens do not get left out of the process, the Prime Minister's task force on IT has recommended that every STD/ISD booth in the country should be converted into an 'information kiosk' providing access to the ***internet*** *and related services like e-mail. The IT Action Plan in India aims at creating over 10 lakh jobs over the next five years and increasing India's software exports to$50 billion by 2008 from around $2 billion at present.*

A minute on a trans-Atlantic cable laid 40 years ago cost a hefty $2.44; but in 1996 the same amount of time cost more than a whisker of a second. The figure does not allow for costs such as billing, marketing and access to local networks, but it suggests that the basic cost of an international link is now trivial.

The second earth-mover will be the wiring of the world. Today, 5.6 billion people make do with a mere 600 million telephones. In the developing world, telephone '**density**' is a mere one-tenth of the rich world. But developing countries are forging ahead with privatisation: more than a dozen have done so in the past couple of years, with more planned in Ghana and Guinea, Panama and Poland and other yet more disparate countries.

A study by Christopher Mines, director of information technology research at Forrester, estimated that by 2004 more than 4% of the revenue of American telephone companies- some $3 billion - might shift to the internet. Of that, $2 billion would represent revenue to the new industry, and $1 billion would be cost saving for users.

India's telecom problem is straightforward enough : fewer than17 million telephone lines exist for over 900 million people. Worse, at the rate at which the number of lines is growing at present, it will take five centuries for every 100 Indians to have a telephone between them. That is not all. Modern, hi-tech communication systems are virtually non-existent. For a country wooing foreign investment, this is obviously a major handicap.

The latest telecom joke concerns that most essential accessory for every self-respecting plutocrat : a mobile telephone. Three gentlemen are sitting in a restuarant. One pulls out a wafer-thin telephone and starts talking. Not to be outdone, the second whispers into his lapel explaining that a miniature telephone is sewn into his suit. The third starts juddering uncontrollably and makes chugging noises. " What's wrong with you?" his colleagues ask. "I'm receiving a fax," he replies.

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Soon after Jeri Capozzi logged onto the online nursery Garden Escape Inc. last winter, she was hooked. And it wasn't just because the **World Wide Web** site offered unusual plants, such as hyacinth beans, firecracker and dog's tooth violet. It's because Garden Escape created a personal store just for her. Greeted by name on her personal page when she visits, Capozzi can takes notes on a private online notepad, tinker with garden plans using the site's interactive design program, and gets answers from the Garden Doctor. So far, the 41-year old insurance caseworker from Litchfield, Conn., has spent $ 600 at Garden Escape and has no plans to shop at any other nursery. With service that personal, she says, 'I probably will never leave it.'

The death of the distance as a determinant of the cost of communications will probably be the single most important economic force shaping society in the first half of the next century.

Some Finns say that allowing them to exchange messages with their offices has increased their productivity. Others grumble that meetings have become impossible because everybody round the table is surreptitiously checking their mail.

In 1994, the ten largest telecom giants made more profits than the twenty five largest commercial banks. Demand is soaring : over 38 million new subscribers were connected to the fixed network in 1994, more than twice as many newcomers as in 1986. Another 19 million joined a mobile network in 1994 alone.

Maintenance accounts for a quarter of the costs of running a network, and the maintenance costs of a fibre-optic network are around one-fifth those of a wired network.

The key change, in the words of Al Gore, America's vice-president, will be that 'Time zones, not cost, will become the biggest barrier to keep in touch.' It will become possible to site any screen-based activity anywhere; and to tap into all sorts of information and advice - from crop prices to university courses to medical help - from anywhere in the world. As a result, decisions about location will be transformed and regional policy will at last become meaningful. Many services will become internationally tradeable—and indeed easier to ship from one country than goods are today. Countries thousands of miles apart will be able to offer services, from providing an insurance quote to monitoring a security camera, that have up to now required proximity.

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Motorola is convinced that the Intranet has a big payoff in quality and consistency. On-screen highlighting and colour coding enable workers to identify new parts and instructions instantly, and flag steps in the assembly process with high error rates. The intranet also helps Motorola comply with the stringent rules of bodies like the International Standards Organisation. To comply with ISO specifications, a manufacturer must demonstrate periodically that every copy of every assembly instruction is up to date - a massive headache in the paper world. Motorola however, can make changes centrally on it's Web server and make them available immediately to every terminal on the floor. Such advantages make the intranet measurably cheaper than paper documentation. For the four Mansfield assembly lines that do not use cyber-instructions, six support technicians are needed to manage the paper; the intranet that serves the two cable-modem lines needs the attention of only one technician.

How does personalisation work ? Buy a book at online retailer Amazon.com, and the next time you visit, the opening screen will welcome you back by name.

A pilot program using **EDI** has helped Pune-based Bajaj Auto Limited, the country's largest maker of motor scooters, reduce the time it needs to get materials from suppliers across the country from 15 to 3 days.

A fibre-optic cable can carry 30,000 simultaneous telephone conversations.

According to a survey of 25 top on-line merchants by New York market researcher Jupiter Communications, 40 % say they have begun to offer personalised features, with 93 % saying they will within a year.

The Concero Switchboard, a $495 gadget from Centrepoint Technologies will sort out all the stuff that is plugged into your phones, route calls where you want them to go, and give your home office or small business a big-time look and feel.

...repeat buyers accounted for more than 60 % of Amazon's $ 203 million in sales in the first half of 1998.

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Glossary of terms

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Analog

The traditional telecommunications signal which at all times represents the pitch and volume of the speaker's voice. This is being replaced by digital technology.

Asynchronous Transfer Mode (ATM)

ATM is a technology designed to transport and switch (or route) digital telecom signals in the form of small cells of 53 bytes. Operating at high transmission rates, ATM can carry any type of digital telecom signal including delay-sensitive services such as voice and video. ATM is the preferred switching technology for future broadband and multimedia telecom networks using fibre optic cables.

Bandwidth

The range of frequencies, expressed in Hertz (Hz), that can pass over a given transmission medium. The bandwidth determines the rate at which information can be transmitted through a channel. The greater the bandwidth, the more is the information that can be carried in a given amount of time.

Bit Rate (Bits/second, bps)

The bit rate of a transmission line or modem (Modulator / Demodulator) is the number of bits per second which it can transmit, and is often synonymous with bandwidth.

Broadband

The family of powerful technologies that comprise the new platform for telecommunications networks and services. In most respects the information

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superhighway is a description of the broadband networks that are now under construction. These pave the way for the next generation of high and variable networks capable of handling all types of voice, data and video services faster, more flexibly and more efficiently. Broadband is the technological platform for the growing multimedia industry.

Convergence

The coming together of telecommunications with other industries such as computing, information dissemination and broadcasting.

Digital Signal

A signal with only 0 and 1 in binary digital notation, during transmission, unlike an analog signal where values continuously vary. This binary notation can represent an infinite range of values, by using two voltage levels or two frequencies to represent 0 and 1.

Fibre Optics

Technology which uses light travelling along a glass fibre to carry the 'on' or 'off' signals of digital information. Almost all modern communication networks use optical fibre cable.

GSM

'Global System for Mobile (Groupe Systeme Mobile),' a standard for digital mobile telephony first developed in Europe but now in use in many other countries around the world.

HTTP (Hyper Text Transfer Protocol)

Hyper Text Transfer Protocol was initially developed over the internet but is also used in ATM networks.

Hubbing

Acting as hub or transfer point for international telecommunications traffic from an operator in another country. Apart from these traffic-handling arrangements between carriers, hubbing can also refer to the process of multinational companies basing their regional or global telecoms and IT centres in a country, linking to their sub-offices in the region through international leased circuits.

Inmarsat (INternational MARitime SATellite Communication)

International organisation originally created for communication with ships at sea and has been offering a range of mobile communication services. Since 1994, it has become the International Mobile Satellite Organisation but continues to be known as Inmarsat.

Integrated Services Digital Network (ISDN)

Integrated Services Digital Network provides sufficient bandwidth for simultaneous transmission of voice, video and data signals at the office or at home.

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Intelligent Network (IN)

A network which is controlled by powerful computers and sophisticated software, allowing it to offer advanced, highly individualised services to its customers, including re-routing calls or setting up complex billing arrangements in many cases controlled by the computer.

Intelsat

This is an inter governmental organisation which caters to the needs of international communications through a fleet of 19 satellites owned and operated by it. It has 143 countries including India as its members.

Interactive Media Services

A term which describes an important development in telecommunications, as the capacity and flexibility of digital networks increasingly allow them to carry not just voice and data, but video films selected by the individual customer ('video-on-demand'), interactive services such a home shopping or banking, video-conferencing and many others.

Internet

The world's largest network of interconnected computers with millions of people worldwide using it for communication from personal computers. Users can access information stored on other computers and databases around the Internet and even create individual database sites.

Narrowband

Usually describes networks or services based on the PSTN (Public Switched Telephone Networks), which can be accessed virtually everywhere. Designed for telephony, narrowband data transfer is limited to about 64,000 bits/second.

Personal Communications Networks (PCN)

The latest generation in digital mobile telephone networks, generally characterised by low cost and the ability to serve a very large number of customers.

Shareholder Value

The principle of constantly increasing a company's value in the interests of its shareholders. This increase in value is reflected in a higher share price and/or dividend payment. Shareholder value means full commitment of all corporate divisions to enhancing returns for the shareholders.

TCP/IP (Transmission Control Protocol/Internet Protocol)

Communication standard between different systems primarily used for communication over the internet.

X.400

International standard for electronic message services.

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Shareholders' information

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Info Fax : + 91 (22) 432 0220
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website : http://www.vsnl.net.in,
http://www.web.vsnl.net.in,

Compliance Officer

Mr. R.N. Aditya
Assistant Company Secretary
Videsh Sanchar Bhavan,
Mahatma Gandhi Road,
Mumbai 400 001, India.

Transfer Agent and Registrar

Mafatlal Consultancy Services (India) Ltd.
Jukaso House, Jukaso Mills Compound,
Behind Orkay Silk Mills,
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Andheri (East),
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Contact person: Mr. Vinod Temkar
Tel : + 91 (22) 851 1229 / 1665 / 8674
Fax : + 91 (22) 851 0018

Dividend

The Board of Directors of VSNL has proposed a dividend of 40 per cent for the financial year 1997-98.

Book closing

16 September, 1998 to 30 September, 1998.

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Shareholder profile

Category of shareholder	Per cent
Government of India and nominees	64.97
Indian banks, FIs and mutual funds	9.78
FIIs	5.34
GDR Stock	19.89
Public	0.02

Figures valid as of 21 September, 1998 (AGM).

Exchanges listed at

VSNL's scrip is listed on the principal stock exchanges of the country viz., Mumbai, Chennai, Calcutta and Delhi. In addition, the scrip is listed on the National Stock Exchange of India and the GDR is listed on the London Stock Exchange.

Distribution of shareholding as of 21 September, 1998

Total equity shares	95,000,000
Nominal and paid-up value per share :	Rs. 10

Shares	Shareholders	Per cent of total shares in category
Upto 500	223	0.10
501 to 1,000	11	0.10
1,001 to 2,000	17	0.29
2,001 to 3,000	6	0.15
3,001 to 4,000	8	0.30
4,001 to 5,000	4	0.19
5,001 to 10,000	8	0.57
10,000 and above	31	98.30
Total	308	100.00

Three-year financial summary

(Figures as per Indian GAAP in Rs million)

Particulars	1995-96	1996-97	1997-98
Total income	44,730.71	52,835.80	64,361.33
Expenditure	37,012.80	43,737.83	49,410.00
PBDIT	7,717.91	9,097.97	14,951.33
Interest	66.51	44.27	12.31
Depreciation	557.92	576.33	654.88
PBT	7,093.48	8,477.37	14,284.14
Tax/Adjustments	3,005.45	3429.93	4,604.98
Net profit	4,088.03	5,047.44	9,679.16
Equity	800.00	921.65	950.00
Reserves	12,377.25	28,857.18	40,853.09

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Board of Directors

Shri Amitabh Kumar (w.e.f. 1.7.1998)
Officiating Chairman & Managing Director

Shri B.K. Syngal (until 30-6-1998)
Chairman & Managing Director

Shri Amitabh Kumar
Director (Operations)

Shri R.K. Gupta (until 20-2-1998)
Director (Development)

Smt. S.A. Tirmizi
Director

Shri B.R. Khurana
Director

Shri Satish Ranade, *Company Secretary*

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Website : http : // www.vsnl.net.in
http : // web.vsnl.net.in

Bankers

Indian Overseas Bank, Mumbai
Bank of Baroda, Mumbai
State Bank of India, Mumbai
HDFC Bank Limited, Mumbai

Solicitors

M/s. Mulla & Mulla & Craigie
Blunt and Caroe
Jehangir Wadia Building
51, Mahatma Gandhi Road
Mumbai - 400 001.
M/s. Little & Company
Central Bank Building
Mahatma Gandhi Road, Mumbai - 400 001.

Joint Statutory Auditors

M/s. C.C. Chokshi & Co.
Nirmal Building, Nariman Point
Mumbai - 400 021.

M/s. Alladi Krishnan & Kumar
B4 Mangalya, 93 Bal Govindas Road
Matunga (W), Mumbai - 400 016.

Branch Auditors

Eastern Region

M/s. V.N. Purohit & Co.
32 B, Ganesh Chandra Avenue
Calcutta - 700 013.

Southern Region

M/s. R. Subramanian & Co.
36, Krishnaswamy Avenue
102 Mylapore, Chennai - 600 004.

Northern Region

M/s. M.K. Kaul & Associates
Munir Manzil Regal Chowk
Residency Road, Srinagar.

Registrars & Transfer Agents

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Jukaso House, Jukaso
Mills Compound
Behind Orkay Mills
Andheri Kurla Road
Sakinaka, Andheri (E),
Mumbai - 400 072.

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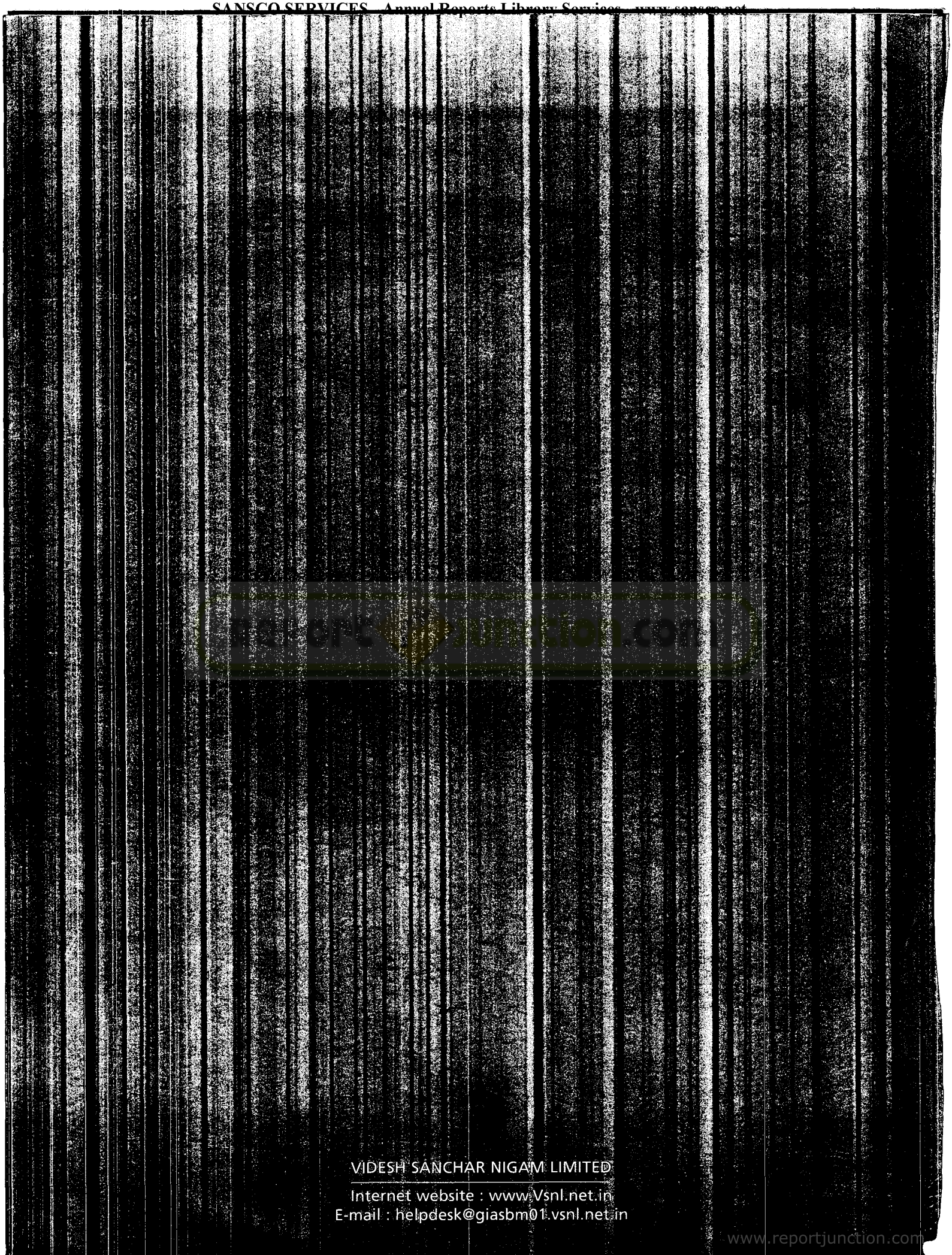
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